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No. _____

Supreme Court, U.S.
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In The

Supreme Court of the United States

October Term, 1993

NATIONAL CAR RENTAL SYSTEM, INC.,

Petitioner,

vs.

COMPUTER ASSOCIATES INTERNATIONAL, INC.,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Eighth Circuit

PETITION FOR WRIT OF CERTIORARI

PETER J. FRAZZA*
DONALD P. JACOBS
LEONARD T. NUARA
BUDD LARNER GROSS ROSENBAUM GREENBERG & SADE, P.C.
150 John F. Kennedy Parkway
Short Hills, New Jersey 07078-0999
(201) 379-4800

Attorneys for Petitioner

*Counsel of Record

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

QUESTION PRESENTED

Whether the Copyright Act preempts a state-law, breach of contract action alleging that a licensee of copyrighted computer software used the software in a manner that exceeded the scope of the license?

PARTIES

The parties to this proceeding are National Car Rental System, Inc. ("National") and Computer Associates International, Inc. The parent company of National is General Motors Corporation. The following corporations are nonwholly owned subsidiaries of National:

Green Bay Car Rentals, Inc.
Caulton Holdings Limited
National Car Rental System de Mexico S.A. de C.V.
National Car Rental System (Germany) GmbH.

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OPINIONS BELOW

The decision of the United States Court of Appeals for the Eighth Circuit is reported at 991 F.2d 426. App. 1. The district court's opinion is not reported in the Federal Supplement but is reported at 22 U.S.P.Q.2d 1375. App. 23.

JURISDICTION

The judgment of the United States Court of Appeals for the Eighth Circuit was entered on April 6, 1993. The

jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

This case requires an analysis of the preemptive effect of the federal Copyright Act, 17 U.S.C. § 101 et seq. ("the Act"). Selected portions of the Act are reprinted in the Appendix. App. 133-151. Also reprinted in the Appendix is Article I, § 8, cl. 8 of the Constitution, which authorizes Congress to legislate with respect to copyrights. App. 133.

STATEMENT OF THE CASE

A. Basis for Federal Jurisdiction

This declaratory judgment action was filed in the United States District Court for the District of Minnesota. The jurisdiction of the district court was invoked under the Act. The district court had jurisdiction pursuant to 28 U.S.C. § 1338(a), which provides that the district courts shall have original, exclusive jurisdiction over any civil action arising under any act of Congress relating to copyrights.

B. Factual Allegations and Procedural History

National Car Rental System, Inc. ("National") licenses copyrighted computer software from Computer Associates International, Inc. ("CA"). National filed this

action after being threatened with suit by CA. The complaint seeks, among other things, a judgment declaring that National's use of the licensed computer software does not violate the Act. The particular use at issue involves activities relating to Tilden Car Rental, Inc. ("Tilden"), a National affiliate, and Lend Lease Trucks, Inc. ("Lend Lease"), a former wholly owned subsidiary of National.

The Contractual Provisions on Use

National's original license agreements were with various predecessors of CA. In 1990, National and CA signed another license agreement, which continued National's authorization to use the licensed software. The agreement provided:

> **USE OF LICENSED PROGRAM**
>
> This Agreement authorizes Licensee to use the Licensed Program(s), covered by Order Form(s) accepted by CA, only with the Designated CPU(s) of Licensee at the installation site of Licensee identified on the Order Form *and only for the internal operations of Licensee and for the processing of its own data.*

App. 69 (emphasis added).

A similar provision appeared in a "supplement addendum" to the 1990 license agreement. The supplement addendum was signed by National, CA and Electronic Data Systems Corporation ("EDS"). It permitted EDS, in connection with the performance of data-processing services for National, to use the licensed software as follows:

> 2. *Use of Licensed Program(s).* . . . [EDS] and Licensee agree that [EDS] will use the Licensed Program(s) *solely for the benefit and use of Licensee* and such use will be subject to the rights, obligations and benefits in all respects of the terms and conditions of the License Agreement. Unless authorized in writing by CA, [EDS] agrees to use the Licensed Program(s) (i) subject in all respects to the terms and conditions of the License Agreement, (ii) only on the designated CPU(s) identified herein or in the License Agreement, and (iii) *solely, on a dedicated basis, to process data of Licensee and in no event for the processing of data of [EDS] or of any third party other than Licensee.* . . .

App. 64 (emphasis added).

The Complaint and Counterclaim

CA objected to National's use of the licensed software for activities relating to Tilden and Lend Lease, claiming that such use was not permitted by the license agreement and supplement addendum. App. 47, ¶28; App. 54, ¶20. As a result of the alleged "breach of the license grant," CA demanded that National pay it millions of dollars in additional license fees. App. 47, ¶¶28-29; App. 54, ¶20.

In its complaint for declaratory relief, National admitted using the licensed software "in its business activities . . . , including the activities relating to Tilden and [Lend Lease]," but maintained that such use was permitted by the license agreement and supplement addendum. App. 44, ¶13. National demanded a judgment declaring that "National has not infringed any copyright

CA has in the Licensed Software and National has the right to use the Licensed Software for its business, including activities relating to Tilden and [Lend Lease] without the payment of additional fees for past or future use." App. 49.

After moving unsuccessfully to dismiss the action for lack of subject matter jurisdiction, CA filed an answer and counterclaims. In the answer, CA admitted "that it has objected to and continues to object to any breach of the license grant . . . , including any use of the Licensed Programs for any purpose other than the internal operations of National and for only the processing of its own data." App. 54, ¶20. In its first counterclaim, CA alleged that National breached the 1990 license agreement and the supplement addendum by exceeding the scope of use permitted by those agreements.

The first counterclaim alleged that "the authorization for use granted [to] National" by the 1990 license agreement "was for the internal operations of National and for the processing of its own data." App. 55-56, ¶31. The alleged breach was that "National has used and permitted the use of the Licensed Programs for the processing of data for the benefit of third parties[,]" including Tilden and Lend Lease. App. 57, ¶36. CA claimed damages from a loss of fees and alleged that "National has been unjustly enriched by any fees or other compensation received from those third-parties for use of the Licensed Programs for their benefit." App. 57, ¶37.

In a second counterclaim, CA alleged that National committed copyright infringement by making a duplicate copy of four copyrighted computer programs. App. 58-60.

Those four programs are among the programs licensed to National by the 1990 license agreement. App. 59, 85. To support the second counterclaim, CA attached a copy of the copyright registrations for each of the four programs. App. 58-59, ¶43; App. 86-125.

National answered the counterclaims (App. 126) and then moved for judgment on the pleadings.

The Opinions Below

The district court granted National's motion for judgment on the pleadings with respect to the breach of contract counterclaim. With respect to the second counterclaim, the court converted National's motion into one for summary judgment and then denied that motion. The order with respect to the second counterclaim was not appealed and is not at issue here.

The district court held that CA's breach of contract counterclaim was preempted because it sought to enforce a right not qualitatively different from the distribution right set forth in section 106(3) of the Act. App. 23, 32. Thereafter, the district court denied CA's motion for reconsideration. App. 38. CA appealed from both the judgment on the pleadings and the denial of the motion for reconsideration. The district court certified the appeal as final pursuant to Fed. R. Civ. P. 54(b).

The United States Court of Appeals for the Eighth Circuit reversed the entry of judgment on the pleadings. First, the court concluded that, giving CA the benefit of all reasonable inferences from the pleadings, the counterclaim could not be read to allege that National actually

distributed the software. App. 1, 8-10. The court then concluded that CA was not seeking to protect a right "equivalent to one of the exclusive copyright rights." App. 10. This was because "the alleged contractual restriction on National's use of the licensed programs constitutes an extra element in addition to the copyright rights making this cause of action qualitatively different from an action for copyright." App. 11-12. With respect to the "extra element" analysis, the court relied upon the legislative history of the 1976 revision of the Act. App. 16-19.

REASONS FOR GRANTING THE WRIT

THE COURT OF APPEALS' DECISION DENIES NATIONAL AND OTHER LICENSEES THE RIGHT TO RELY UPON FEDERAL LAW, AND IT ENABLES CA AND OTHER LICENSORS TO CIRCUMVENT THE PREEMPTIVE EFFECT OF THE COPYRIGHT ACT THROUGH ARTFUL PLEADING.

A. Introduction

In *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989), this Court recognized the strong preemptive purpose of the Copyright Revision Act of 1976. The Court noted Congress's "express objective of creating national, uniform copyright law by broadly pre-empting state statutory and common-law copyright regulation." 490 U.S. at 740. Therefore, the Court held, establishment of a federal rule of agency, rather than reliance upon state common law, was appropriate with respect to the construction of agency law terms undefined in the Act. *Id.*

Despite this recognition of the preeemptive purpose of the 1976 revision, considerable uncertainty exists with respect to preemption in the area of copyright law. Three years prior to the 1976 revision, the Court decided *Goldstein v. California*, 412 U.S. 546 (1973). That case arose under the Copyright Act of 1909, which contained no clear preemption provision. See 412 U.S. at 567-71. In *Goldstein*, the Court held that, although "[t]he objective of the Copyright Clause was clearly to facilitate the granting of rights national in scope," a state statute prohibiting tape piracy was not void under the Supremacy Clause of the Constitution. *Id.* at 555, 561-71.

Courts of appeals disagree as to whether *Goldstein* remains good law, given the preemptive purpose of the 1976 revision. Compare *G. S. Rasmussen & Assocs., Inc. v. Kalitta Flying Serv., Inc.*, 958 F.2d 896, 904 (9th Cir. 1992), *cert. denied*, 61 U.S.L.W. 3818 (U.S. June 7, 1993) (No. 91-1970) (citing *Goldstein* for proposition that "federal copyright law does not preempt state copyright law providing greater protection") with *Crow v. Wainwright*, 720 F.2d 1224, 1225 (11th Cir. 1983) ("The legislative history of section 301, which Congress passed in 1976, clearly evidences Congress' intent to overrule by statute cases such as *Goldstein v. California*").

Shortly after enactment of the 1976 revision, commentators predicted that important questions regarding preemption would have to be resolved by the courts. E.g., Goldstein, *Preempted State Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright*, 24 UCLA L. Rev. 1107, 1113-18 (1977). The present case underscores the conflicting approaches taken by the

courts of appeals and the need for the intervention of this Court.

Until the Court of Appeals' decision, National and other corporations doing business throughout the country could reasonably expect that their license agreements would be subject to a uniform body of federal law rather than the common law of the various states. The decision threatens to destroy the uniformity and predictability intended by Congress. Unless the decision is reviewed and reversed, National and other licensees charged with using copyrighted materials beyond the scope of a license will be deprived of the defenses that should be available to them under the Act.

B. The Court of Appeals Disregarded the Preemptive Purpose of the Copyright Act and Mischaracterized the Legislative History.

"One of the fundamental purposes behind the Patent and Copyright Clauses of the Constitution was to promote national uniformity in the realm of intellectual property." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162 (1989). In enacting the 1976 revision of the Act, Congress breathed new life into this purpose. Congress emphasized its intent to establish a single, preemptive federal system with respect to copyright protection, "to promote national uniformity and to avoid the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various States." S.Rep. No.94-473, 94th Cong., 2d Sess. 1, 113 (1976) [hereinafter "S.Rep." or

"Senate Report"], *reprinted in* 5 D. and M. Nimmer [hereinafter, "Nimmer"], Appendix 4A-1, 180; H.Rep. No. 94-1476, 94th Cong., 2d Sess. 1, 129 (1976) [hereinafter "H.Rep." or "House Report"], *reprinted in* 5 U.S. Code Cong. & Admin. News 5659, 5745 (1976).

Section 301 of the Act accomplishes this purpose by preempting and abolishing any state law rights "that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106" and that "come within the subject matter of copyright as specified by sections 102 and 103." 17 U.S.C. § 301(a). Section 301 was "one of the bedrock provisions of the bill." S.Rep., p. 112, Nimmer, p. 4A-180; H.Rep., p. 129, U.S.Code Cong. & Admin.News 1976, p. 5745. "The declaration of this principle in section 301 is intended to be stated in the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Federal protection." H.Rep., p. 130, U.S.Code Cong. & Admin.News 1976, p. 5746.

Section 301(b)(3), the section at issue in this case, must be read in the context of Congress's overriding purpose with regard to preemption. Significantly, the Court of Appeals made no mention of that purpose.

Section 301(b)(3) provides:

> Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to –

* * *

> (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106[.]

17 U.S.C. § 301(b)(3).

For many years, the proposed copyright legislation contained a list of examples that would have followed immediately after the above-quoted language. As passed by the Senate on February 19, 1976, section 301(b)(3) of the copyright bill listed the following as examples of common law rights or remedies that would not be pre-empted: "rights against misappropriation not equivalent to any of such exclusive rights, *breaches of contract*, breaches of trust, trespass, conversion, invasion of privacy, defamation, and deceptive trade practices such as passing off and false representation." 122 Cong.Rec. S2055 (daily ed. Feb. 19, 1976) (emphasis added).

Seven months later, when the bill was read before the House, these examples were still intact. 122 Cong.Rec. H10892 (daily ed. Sept. 22, 1976). Prior to the House vote, however, the examples were deleted at the urging of Rep. Seiberling, who explained that he was following a recommendation of the Department of Justice. *Id.* at H10910 (remarks of Rep. Seiberling). The Chairman of the House Subcommittee, Rep. Kastenmeier, accepted the recommended deletion because it was "consistent with the position of the Justice Department." *Id.* (remarks of Rep. Kastenmeier).

The Court of Appeals noted this last-minute deletion and concluded that, because Rep. Seiberling had indicated that the principal target of the deletion was the misappropriation example rather than the other examples, no significance should attach to the deletion insofar as preemption of breach of contract actions is concerned. App. 17-19. But the Court of Appeals failed to note a key fact about the Justice Department recommendation that triggered the deletion: The Justice Department stated that the inclusion of the breach of contract example, as well as of the other causes of action on the list of examples, could "nullify preemption." Letter from Michael M. Uhlmann to Robert Kastenmeier (July 27, 1976) at 7, reprinted at App. 152, 160-61.

Given the Justice Department's concern that the examples could "nullify preemption," the Court of Appeals was wrong to conclude that "the facts surrounding the deletion of § 301(b)(3) suggest Congress did not intend to reverse the presumption of non-preemption for the examples initially included in § 301(b)(3)." App. 17. Thus, contrary to the Court of Appeals' conclusion, the general rule with respect to deleted language should apply: "Where Congress includes limiting language in an earlier version of a bill, but deletes it prior to enactment, it may be presumed that the limitation was not intended." *Russello v. United States*, 464 U.S. 16, 23-24 (1983). See also *Wolff v. Institute of Elec. & Elects. Eng'rs, Inc.*, 768 F.Supp. 66, 69 (S.D.N.Y. 1991) (noting the deletion of the breach of contract example and holding a breach of contract claim to be preempted).

C. The Eighth Circuit's Decision Conflicts With Decisions of Other Circuits and Disrupts the Reasonable Expectations of Licensees.

The Court of Appeals overlooked the nature of the claim being asserted. CA's claim that National used the copyrighted software beyond the scope of the license was quintessentially a claim for copyright infringement. The Eighth Circuit's holding conflicts with decisions of other circuits.

In *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989), the Ninth Circuit was similarly faced with a claim by a plaintiff alleging that a licensee used computer software beyond the scope of use permitted by a license agreement. The court concluded that "[t]he district court erred in assuming that a license to use a copyrighted work necessarily precludes infringement. *A licensee infringes the owner's copyright if its use exceeds the scope of its license.*" 886 F.2d at 1087 (emphasis added).

The Ninth Circuit explained that "[t]he license must be construed in accordance with the purposes underlying federal copyright law." Under the Act, "copyright licenses are assumed to prohibit any use not authorized." 886 F.2d at 1088. The court remanded the case so that the district court could decide whether defendant's uses of the licensed software "exceeded the scope of its license." 886 F.2d at 1089. If they did, those uses would be "unshielded by any license" and thus infringing of plaintiff's copyright. *Id.*

Although *S.O.S.* did not specifically involve preemption, its significance here is obvious. If, as the *S.O.S.* plaintiff alleged, the licensee used the software in ways

not permitted by the license agreement, the licensee breached the contract. But a cause of action for that breach was equivalent to a claim for copyright infringement. See also *Del Madera Properties v. Rhodes and Gardner, Inc.*, 820 F.2d 973, 977 (9th Cir. 1987) (cause of action for unjust enrichment, arising from "an implied promise . . . not to use" copyrighted materials, was preempted because the promise was "equivalent to the protection provided by section 106 of the Copyright Act"); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 512 (9th Cir. 1985) (defendants infringed plaintiff's copyright by exceeding the scope of a license).

The Eighth Circuit's decision also conflicts with the Seventh Circuit's decision in *WGN Continental Broadcasting Co. v. United Video, Inc.*, 693 F.2d 622 (7th Cir. 1982). The defendant in *WGN* was contractually required to retransmit plaintiff's television program to cable systems. The Seventh Circuit held that defendant's deletion of a portion of the program (teletext) constituted copyright infringement "under familiar principles." 693 F.2d at 625, 628.

The Seventh Circuit explained: "A copyright licensee who 'makes an unauthorized use of the underlying work by publishing it in a truncated version' is an infringer – any 'unauthorized editing of the underlying work, if proven, would constitute an infringement of the copyright in that work *similar to any other use of a work that exceeded the license granted* by the proprietor of the copyright.' " 693 F.2d at 625, quoting *Gilliam v. American Broadcasting Cos.*, 538 F.2d 14, 20 (2d Cir. 1976) (emphasis added). See also *Brignoli v. Balch Hardy and Scheinman, Inc.*, 645 F. Supp. 1201, 1205 (S.D.N.Y. 1986) (in absence of

additional element, breach of contract claim for "unauthorized use of copyrightable material falls squarely within § 301 and thus is preempted"); *National Bank of Commerce v. Shaklee Corp.*, 503 F.Supp 533, 544 (W.D. Tex. 1980) (defendant's unauthorized addition of advertising material to text of plaintiff's book constituted copyright infringement because "a licensee infringes a copyright by exceeding his license").

In its opinion in this case, the Eighth Circuit concluded that National read *S.O.S* and similar cases "too broadly" because, except for one, they did not involve preemption. App. 12. "Rather than stating a rule that any use exceeding the license is infringing," the court concluded, "these cases establish that engaging in one of the acts reserved to a copyright holder under § 106, without a license to do so, is infringing." App. 13.

This was a cramped and incorrect reading of the cases. The Ninth Circuit clearly stated a rule that, to use the Eighth Circuit's language, "any use exceeding the license is infringing." In *S.O.S.*, the trier of fact had only to determine whether the defendant's uses exceeded the scope of the license; if they did, those uses would constitute copyright infringement. 886 F.2d at 1089. And in *WGN*, the Seventh Circuit found copyright infringement not because the use was within any of the rights enumerated in section 106 but because the use "exceeded the license granted."

If, as here, a licensee is charged with using copyrighted works beyond the scope of a license, the claim falls under the Act, and the licensee should be able to assert standard copyright defenses. Those defenses,

which are available *only* under the Act, include the fair use defense provided by 17 U.S.C. § 107; the computer-use defense provided by 17 U.S.C. § 117; and the three-year statute of limitations defense provided by 17 U.S.C. § 507, which is shorter than the statutes of limitations provided by many states for breach of contract actions. The Act's defenses also include improper registration, which, if proven, may invalidate a copyright and thus result in the dismissal of a copyright holder's claim. See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, ___ U.S. ___, 111 S.Ct. 1282, 1287 (1991) ("The *sine qua non* of copyright is originality"); *Whimsicality, Inc. v. Rubie's Costume Co.*, 891 F.2d 452, 455-56 (2d Cir. 1989) (misrepresentations to Copyright Office invalidate registration).

D. Computer Use Is Specifically Addressed in the Act.

The Act defines computer programs in terms of use: "A 'computer program' is a set of statements or instructions *to be used* directly or indirectly in a computer in order to bring about a certain result." App. 137 (emphasis added). Congress added that definition in 1980 as a result of recommendations of the National Commission on New Technological Uses of Copyrighted Works ("CONTU"). *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 703 (2d Cir. 1992).

One of the purposes of the 1980 amendments was to confirm for software owners and users alike that computer software is subject to the protections of the Act. CONTU stated that its goal was "[t]o provide reasonable protection for proprietors without unduly burdening

users of programs and the general public. . . . Copyright should in no way inhibit the rightful use of these works." National Comm'n on New Technological Uses of Copyrighted Works, *Final Report* at 12 (1979), reprinted at App. 175, 184.

Given Congress's purpose in placing computer use under the Act, it was anomalous for the Eighth Circuit to hold that CA's allegation of use beyond the scope of the license agreement did not raise copyright questions. License agreements are perhaps the most important means by which the public obtains a right to use computer software and other copyrighted materials. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (copyright protection is primarily designed to encourage copyright holders to release their works to the public). Cf. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) ("Permitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention.") In revising the Act in 1976, and again in 1980, Congress intended that licensees would be able to rely upon the protections and certainty of a uniform body of federal law. The Court of Appeals' decision thwarts that intent by approving the injection of state common law into this uniquely federal area.

E. The Limitation on Use Was Not an Extra Element.

The "extra element" analysis is useful if it highlights whether a particular cause of action relies upon an element other than the elements relied upon in actions for

copyright infringement. The extra element may be any element that changes the nature of the claim from one seeking recovery for copyright rights. E.g., *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990) (extra element was defendant's promise not to represent competitors); *Brignoli v. Balch Hardy and Scheinman, Inc.*, 645 F. Supp. at 1205 (extra element was promise to pay royalties).

The "extra element" analysis is illusory, however, if the court merely labels an element as "extra" without correctly analyzing the element's significance in terms of copyright law. See Note, *Copyright Preemption: Effecting the Analysis Prescribed by Section 301*, 24 B.C. L. Rev. 963, 984 (1983) (the "extra element" test often "works results contrary to the intent of the statute, due primarily to the ease with which a court can 'find' the extra element needed for the state law to survive preemption.") By holding that "the contractual restriction on use of the programs" was an extra element, the Court of Appeals failed to recognize the nature of the right being asserted: the right to prohibit a specific use of copyrighted works because the use was allegedly not authorized by license.

As the Ninth Circuit recognized in *S.O.S.*, and as the Seventh Circuit recognized in *WGN*, the right to recover for such an unauthorized use is protected by the Act. If, as here, a state law contract action seeks to enforce the right to recover for unauthorized use, there is no extra element; the state law action seeks to enforce a right equivalent to the right provided by the Act.

In support of its conclusion that CA's breach of contract counterclaim rested upon an "extra element," the

Court of Appeals relied upon two cases. App. 13-16, discussing *Computer Assocs. Int'l, Inc. v. State Street Bank and Trust Co.*, 789 F. Supp. 470 (D. Mass. 1992) and *G.S. Rasmussen & Assocs., Inc. v. Kalitta Flying Serv., Inc.*, 958 F.2d 896 (9th Cir. 1992), *cert. denied*, 61 U.S.L.W. 3818 (U.S. June 7, 1993) (No. 91-1970). The court's reliance upon those cases confirms the need for this Court to review the decision in this case.

In the *State Street Bank* case – the first case relied upon by the Court of Appeals – CA itself argued that a use beyond the scope of a license agreement constitutes copyright infringement. CA threatened to suspend maintenance and support services to a licensee because the licensee had allegedly used the licensed software in ways not permitted by the parties' license agreement. As the district court in *State Street Bank* explained, CA opposed the entry of a preliminary injunction by "cit[ing] cases that hold that exceeding the scope of a license agreement is [copyright] infringement. . . . " 789 F. Supp. at 472.

Although the district court rejected CA's argument, it is significant that CA itself asserted the very position that National is asserting here. CA's espousal of that position confirms the reasonableness of National's expectations with regard to the applicability of the Act in circumstances that were, as the Court of Appeals put it, "very similar" to the present case. App. 14.

The second case relied upon by the Court of Appeals was *G.S. Rasmussen*. The Court of Appeals quoted with approval the Ninth Circuit's statement that "[f]ederal copyright law governs only copying" and that, accordingly, permitting a plaintiff to bring a state law cause of

action for unfair competition, based upon an allegedly wrongful "use" of uncopyrighted materials that had been copied, "does not interfere in any way with the operation of the copyright laws." App. 15, quoting 958 F.2d at 904.

At the time of the Eighth Circuit's decision, this Court had not yet denied the petition for a writ of certiorari filed by the defendant in *G.S. Rasmussen*. Prior to that denial, the Court invited the United States to express its position on whether the writ should be granted. The United States concluded that granting the writ would be premature because the Ninth Circuit's decision should, and probably would, be limited to its highly unusual facts. Those facts concerned defendant's use of a Supplemental Type Certificate ("STC") in obtaining airworthiness certification from the Federal Aviation Administration.

The United States explained:

> The decision as a whole need stand for no more than the proposition that state law may restrain petitioner from using copies of the STC or the manual to pass off its application for an airworthiness certificate as one made under license from respondent. We do not think it should be read as permitting state law to interfere with petitioner's use of copies of uncopyrighted documents in connection with petitioner's own application for an STC, or for any other purpose, so long as petitioner does not claim or imply that use of the STC was authorized by respondent.

Brief for United States as Amicus Curiae, *Kalitta Flying Serv., Inc., et al., Petitioners v. G.S. Rasmussen & Assocs., Inc.*, No. 91-1970, at 16, reprinted at App. 186, 196.

The United States further explained that even this narrow construction was "not unproblematic" from the standpoint of whether the state law action was preempted by federal copyright law. App. 192, 196. If future cases demonstrated that the decision was not being treated as narrowly as it should be, the United States explained, review of subsequent cases relying upon *G.S. Rasmussen* might well be appropriate:

> [O]ur view that the decision below does not warrant review by this Court rests on our interpretation of the decision as a narrow holding applicable in an unusual context. It is possible that further proceedings in this or other cases will prove that interpretation incorrect. In that event, it may be necessary for this Court to grant review at some later time in order to prevent interference with preeminent federal interests both in aircraft safety (or another area of federal regulation) and in the protection and limitation of intellectual property rights.

App. 198.

The Eighth Circuit's reliance upon *G.S. Rasmussen* shows that, contrary to the United States's expectations, that decision has already been construed as much more than "a narrow holding applicable in an unusual context." Indeed, the Eighth Circuit relied upon *G.S. Rasmussen* even though that case involved *uncopyrighted* materials. The preemption concerns recognized by the United States in its amicus brief in *G.S. Rasmussen* are much more apparent here, because the materials in question (the CA software) were copyrighted.

The Court of Appeals' determination as to what constitutes an "extra element" has broad and significant implications not only for National and CA but also for all parties to license agreements that define permitted uses of copyrighted works. Congress intended such license agreements to be governed by the Copyright Act, with its clearly stated defenses and its uniform body of law. The Court of Appeals' decision makes it far too easy to find an "extra" element and thus to circumvent the Act.

F. A Copyright Holder Should Not be Permitted to Circumvent the Act Through Artful Pleading.

Sometimes, in pleading a cause of action for the wrongful use of licensed copyrighted works, the copyright holder will identify the allegedly wrongful use as reproduction, distribution or one of the other specific rights enumerated in section 106. From the standpoint of preemption, those are easy cases. The present case is more difficult because CA, in pleading its breach of contract counterclaim, did not use such words as "reproduce," "distribute," "perform" or "display."

CA's decision to couch its claim in terms other than the rights set forth in section 106 cannot be determinative, however. If it were, copyright holders could avoid the preemptive effect of the Act by artfully drafting their pleadings to assert claims that are really copyright claims without using the section 106 terms. To avoid this possibility, section 301 requires preemption of state law rights that are "equivalent" to the rights enumerated in section 106. Cf. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984) (an infringer is "anyone who

trespasses into [the copyright holder's] exclusive domain by using or authorizing the use of the copyrighted work in one of the five ways set forth in the statute").

The Court of Appeals recognized the need to examine the substance of CA's counterclaim rather than merely its wording. What necessitated consideration of the "extra element" question was the possibility that the claim would be preempted despite the absence of section 106 language. Nevertheless, the court's analysis of CA's claim was so literal and rigid that the very purpose of the analysis was defeated.

The court should have recognized that CA's breach of contract claim was the functional equivalent of a claim for wrongful distribution under section 106(3). CA alleged that National breached the license agreements and the supplement addendum by "us[ing] and permitt[ing] the use of the Licensed Programs for the processing of data for the benefit of third parties." App. 57, ¶36. The distinction between "using" and "permitting the use" was revealing.

The "use" could only refer to use by National. But "permitting the use" could only refer to use by one or more third parties. Such third parties could not be in a position to wrongfully use the software unless the software was *distributed* to them by National. While it may be true that, as CA argued below, " '[u]se' does not mean 'distribution,' " it is also true that "permitting the use" implies distribution, especially when "permitting the use" is specifically contrasted with mere "use," as it was in CA's counterclaim.

Who, then, were the third parties referred to by CA? The counterclaim did not say, and for purposes of the preemption analysis it does not matter. Two possibilities come immediately to mind, however: either CA was alleging that National distributed the licensed software directly to Tilden and Lend Lease, or it was alleging that National distributed the licensed software to EDS, which then used the software for the benefit of Tilden and Lend Lease. Under either scenario, National's alleged distribution of the licensed software to the third party would be the cause of CA's alleged injury. While the supplement addendum permitted the distribution to EDS so long as EDS used the software in specified ways, the allegedly objectionable uses could not have occurred had there been no distribution.

A third possibility, not as obvious, is that CA meant to allege that National acted as a service bureau for Tilden and Lend Lease by processing their data on National's CPUs, using the licensed software to do so. Under that scenario, there would be the functional equivalent of a distribution to Tilden and Lend Lease even without a physical distribution. The reason CA complained about National's use of the licensed software was that it wanted to receive additional license fees – either from National, in amounts equal to the profits by which National was allegedly unjustly enriched, or from the "third parties" themselves. The source of the additional fees would not matter to CA; what mattered was that National allegedly "used" the software in a way that precluded the collection of such fees. The use and its effect would have been no different had there been an obvious distribution, such as by National physically

handing the software to representatives of Tilden and Lend Lease.

It is also revealing that, as one of the components of its breach of contract claim, CA alleged that National was "unjustly enriched." App. 57, ¶37. Unjust enrichment claims are preempted by section 301 because they are "equivalent to the protection provided by section 106 of the Copyright Act." *Del Madera Properties v. Rhodes and Gardner, Inc.*, 820 F.2d at 977.

Finally, CA's registration of the software licensed to National reveals an intent to enforce CA's rights under the Act. Such registration is a prerequisite to a suit for copyright infringement. 17 U.S.C. §§ 411 & 412.

In short, the Court of Appeals failed to recognize the true nature of CA's claim. The decision will encourage licensors to circumvent the Act, thereby undermining the uniform federal copyright scheme enacted by Congress and denying licensees the protections and defenses that should be available to them under the Act.

CONCLUSION

Wherefore, petitioner respectfully requests that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Eighth Circuit.

Respectfully submitted,

PETER J. FRAZZA
BUDD LARNER GROSS ROSENBAUM
GREENBERG & SADE, P.C.
150 John F. Kennedy Parkway
Short Hills, New Jersey 07078-0999
(201) 379-4800

Attorneys for Petitioner
National Car Rental System, Inc.

PETER J. FRAZZA
DONALD P. JACOBS
LEONARD T. NUARA
On the Petition

APPENDIX

NATIONAL CAR RENTAL SYSTEM, INC., Appellee,

v.

COMPUTER ASSOCIATES INTERNATIONAL, INC., Appellant.

No. 92-1683.

United States Court of Appeals, Eighth Circuit.

Submitted Dec. 17, 1992.

Decided April 6, 1993.

Licensee of computer programs brought declaratory judgment action, and licensor filed counterclaim for breach of contract. The United States District Court for the District of Minnesota, Donald D. Alsop, J., granted licensees motion for judgment on the pleading on the counterclaim, and licensor appealed. The Court of Appeals, Magill, Circuit Judge, held that: (1) counterclaim did not allege that licensee had distributed copies but, rather, only that licensee had put computer program to unauthorized use, and (2) breach of contract claim was not preempted by Copyright Act.

Reversed and remanded.

Allen W. Hinderaker, Minneapolis, MN, argued (Bruce H. Little and Polly A. Maier, on the brief), for appellant.

Peter J. Frazza, Short Hills, NJ, argued (Donald P. Jacobs and Vincent J. Proto, on the brief), for appellee.

Before MAGILL, Circuit Judge, HEANEY, Senior Circuit Judge, and BEAM, Circuit Judge.

MAGILL, Circuit Judge.

We here deal with the difficult question of the extent to which the Copyright Act preempts state breach of contract actions alleging that the licensee of computer software exceeded limitations on the use of computer software contained in the license agreements. Computer Associates International, Inc., appeals from the district court's order resolving a motion for judgment on the pleadings and dismissing its breach of contract claim against National Car Rental as preempted under the Copyright Act. We conclude that the district court failed to grant Computer Associates all reasonable inferences from its pleadings, and hold that as properly construed, the cause of action as pled is not preempted. We reverse.

I. BACKGROUND

Computer Associates International, Inc. (CA), creates and licenses computer software. CA licensed its programs to the appellee, National Car Rental Systems, Inc. (National), to process National's data on National's hardware in Bloomington, Minnesota. The 1990 license agreement between CA and National provided, as did earlier

licenses, that National may use the licensed programs "only for the internal operations of Licensee and for the processing of its own data." A separate order form, incorporated into the license agreement, similarly provided that "use of the Licensed Program[s] is restricted to the internal operations of Licensee and for the processing of its own data."

Sometime in 1990, National decided to cease its internal computer operations and contract with an independent computer services vendor for computer related information services. Ultimately, National retained Electronic Data Systems Corporation (EDS) to provide these services. In connection with this transaction, National, EDS, and CA entered into a supplement addendum, which provided that EDS could use the licensed programs to process National's data. The supplement addendum provided that EDS would use the programs for the benefit of National subject to the terms and conditions of the 1990 license agreement, and solely "to process data of Licensee and in no event for the processing of data . . . of any third party other than Licensee."

CA subsequently determined that National had been using the programs to process the data of third parties, including Lend Lease Trucks, Inc. (Lend Lease), and Tilden Car Rental, Inc. (Tilden), in violation of the license agreement, and that such use had continued through EDS under the supplement addendum. CA threatened to sue National if such use did not stop. National then brought a declaratory judgment action in the district court. National admitted in its complaint that it "has used the Licensed Software in its business activities . . . including the activities relating to Tilden and Trucks [Lend Lease]," but

requested a declaration that its use of the programs neither breached the license agreement nor infringed CA's copyright. CA asserted two counterclaims. In the first, it claimed that National's use of the programs, either individually or through EDS, for the benefit of Lend Lease and Tilden, breached the license agreement. In the second, CA claimed that National infringed its copyright by making an unauthorized copy of the software.

National moved for judgment on the pleadings under Rule 12(c), alleging that CA's first counterclaim was preempted under § 301(a) of the Copyright Act. In resolving the motion, the district court concluded that CA alleged a lease agreement between National and the third parties: National permitted them to use the software in exchange for payment. The district court concluded that this cause of action, as pled, was "equivalent" to the exclusive copyright right of distribution of copies of the work, and held it was preempted.

II. DISCUSSION

A. Standard of Review

We review a motion for judgment on the pleadings de novo. *Westcott v. City of Omaha*, 901 F.2d 1486, 1488 (8th Cir.1990). The standard is strict: judgment on the pleadings is not appropriate unless the moving party has "clearly establishe[d] that no material issue of fact remains to be resolved and he is entitled to judgment as a matter of law." *Iowa Beef Processors, Inc. v. Amalgamated Meat Cutters*, 627 F.2d 853, 855 (8th Cir.1980). This court must accept as true all facts pled by the non-moving

party, and grant all reasonable inferences from the pleadings in the non-moving party's favor. *Id.* Thus, we must determine whether CA's first counterclaim, as pled, may reasonably be read only as a claim preempted by the Copyright Act.

The Copyright Act provides the exclusive source of protection for "all legal and equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106" of the Copyright Act. *See* 17 U.S.C. § 301(a). Concomitantly, all nonequivalent rights are not preempted. A state cause of action is preempted if: (1) the work at issue is within the subject matter of copyright as defined in §§ 102 and 103 of the Copyright Act, and (2) the state law created right is equivalent to any of the exclusive rights within the general scope of copyright as specified in § 106.[1] *Harper &*

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[1] The Copyright Act, 17 U.S.C. § 106, states as follows:

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual

Row, Publishers, Inc. v. Nation Enters., 723 F.2d 195, 200 (2d Cir.1983).

We cannot tell from the district court's memorandum opinion whether the district court concluded the cause of action was preempted because the district court believed CA had alleged National actually distributed a copy of the program to Lend Lease and Tilden, or whether the district court concluded that the allegation of use by National for Lend Lease's and Tilden's benefit was preempted even absent an actual distribution. Therefore, we first examine CA's pleadings to determine whether the district court gave it the benefit of all reasonable inferences from the pleadings. On this standard, we determine that CA's pleadings cannot be read to allege that National actually distributed a copy of the program to Lend Lease or Tilden. Instead, CA's pleadings must be read to allege that National breached their contract by using the program itself, or through EDS, to process data for Lend Lease and Tilden. We then examine whether so construed, the cause of action is preempted.

B. Characterization of CA's Pleadings

Because the question here depends upon the proper interpretation of CA's first counterclaim, we set it out in some detail. In the first counterclaim, CA alleged, in pertinent part, that:

> The authorization for use granted National [pursuant to the 1990 License Agreement] was for

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images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

> the internal operations of National and for the processing of its own data. (First Counterclaim, ¶ 31)
>
> Pursuant to the Supplement Addendum . . . it was agreed that the Licensed Programs would be used solely for the benefit of National and subject to the rights, obligations and benefits in all respects of the terms and conditions of the License Agreement. (First Counterclaim, ¶ 32)
>
> Pursuant to the Supplement Addendum . . . National and EDS further agreed, among other things, to use the Licensed Programs . . . solely to process data of National and in no event for the processing of data of any third party other than National. (First Counterclaim, ¶ 33)
>
> . . . In none of the License Agreements was [National] granted any authorization to use the licensed programs for the benefit of any company other than itself. (First Counterclaim, ¶ 35)
>
> . . . National has used and permitted the use of the Licensed Programs for the processing of data for the benefit of third parties. This use of the Licensed Programs for the benefit of third parties includes the use for Lend Lease Trucks, Inc. and Tilden Car Rental, Inc. (First Counterclaim, ¶ 36)
>
> . . . National has been unjustly enriched by any fees or other compensation received from those third-parties for use of the Licensed Programs for their benefit. (First Counterclaim, ¶ 37)

The district court noted that the computer software in question was within the subject matter of copyright, and thus focused on whether CA's breach of contract action sought to protect rights equivalent to the exclusive

copyright rights. The court noted that National had not alleged which copyright right was equivalent to CA's action, but concluded that the distribution right was the only right potentially equivalent.

In resolving the preemption issue, the court concluded that "[c]onstrued as true, CA's allegations reflect the existence of a lease arrangement between National and Lend Lease and Tilden: National has permitted Lend Lease and Tilden to use the licensed software in exchange for payment. The distribution right includes specifically the right to lease or lend." Mem. op. at 9-10. The court further concluded that the presence of a contract promise did not create a right qualitatively different from copyright, and stated: "In essence, CA alleges National breached the license agreement by infringing CA's copyrights in the licensed software." *Id.* at 10.

We believe that in reaching this conclusion, the district court either failed to give CA the benefit of all reasonable inferences from the pleadings or misinterpreted the law of copyright preemption. We first assume that the district court concluded an actual distribution had occurred.

Given our standard of review, we do not believe that CA's complaint may be read to allege that National actually distributed the program. The copyright holder's distribution right is the right to distribute *copies*. *See* 17 U.S.C. § 106(3). Section 106(3) grants the copyright owner the "exclusive right publicly to sell, give away, rent or lend any *material embodiment* of his work." 2 Nimmer on Copyright § 8.11[A], at 8-123 (emphasis added). An examination of CA's pleadings demonstrates that they cannot

reasonably be read to complain about wrongful distribution. First, the contract provisions CA alleges are at issue place limits upon the way those in rightful possession of a copy of the program can use that copy. The provisions do not prohibit National or EDS from giving a *copy* of the program to anyone else. Second, CA does not specifically allege that National gave a copy of the program to Lend Lease or Tilden. CA alleges that "National has used and permitted the use of the Licensed Programs for the processing of data for the benefit of third parties." CA did not allege use *by* Lend Lease and Tilden, but instead alleged use for their benefit.[2]

The only potential allegation of unauthorized distribution comes in CA's contention that National "permitted the use" of the programs. Because we must give CA the benefit of all reasonable inferences from the pleadings, we cannot conclude that an allegation that National "permitted the use" necessarily amounts to an allegation of the actual distribution of a copy of the program. Rather, we believe that such a pleading can be read, in context, to allege that National permitted EDS to use the programs for the benefit of Lend Lease and Tilden, with no copies ever going to Lend Lease and Tilden. EDS, however, was

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[2] CA moved for reconsideration of the initial decision on the pleadings. In the papers surrounding that motion, National admitted that it never gave a copy of the program to Lend Lease or Tilden, but rather processed data for those companies on its equipment. We have, however, decided to evaluate in this appeal the soundness of the initial decision to grant judgment on the pleadings. Because we hold that judgment on the pleadings was improperly granted, we do not consider the district court's disposition of the motion for reconsideration.

authorized under the supplement addendum to have a copy of the program. Thus, given our standard of review, we cannot read CA's pleadings to allege that National breached the contract by wrongfully distributing a copy of the program.

The district court's conclusion that the pleadings alleged a lease agreement does not change our conclusion. The exclusive right to lease a copyrighted work is derivative of the right to distribute, which, as we noted, is the right to distribute copies. *See* 17 U.S.C. § 106; Nimmer, *supra*, at § 8.11[A]. Allegations of a lease agreement thus cannot expand that distribution right; the right to lease must be the right to lease a copy. Because the pleadings cannot properly be read to allege distribution of a copy, neither can they be read to allege a lease of a copy.

We thus conclude that CA's pleadings cannot be read to allege that National breached its contract by actually distributing a copy of the licensed program to either Lend Lease or Tilden.

C. Preemption of the Contractual Limitation on Use

The question then becomes whether CA's allegation that National breached their contract by using the program in a fashion not allowed under the contract protects a right equivalent to one of the exclusive copyright rights. We believe it does not.

We agree with the district court that the computer program in question is within the subject matter of copyright. Thus we focus on the second preemption issue: whether the right sought under state law is equivalent to the exclusive rights under copyright. We must consider whether a limitation on the uses to which a licensee may put a licensed work are preempted even though those uses do not involve the exclusive copyright rights. As noted above, courts and commentators have framed this inquiry as whether the right in question is "infringed by the mere act of reproduction, performance, distribution or display." 1 Nimmer on Copyright § 1.01[B] at 1-13. Section 301 preempts only those state law rights that " 'may be abridged by an act which, in and of itself, would infringe one of the exclusive rights' provided by federal copyright law." *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir.1992) (citing *Harper & Row, Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir.1983),*rev'd on other grounds*, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985)). If an extra element is "required, instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright' and there is no preemption." 1 Nimmer on Copyright § 1.01[B], at 1-14-15 (footnotes omitted); *see also Harper & Row*, 723 F.2d at 200 (where state law right is predicated upon an act incorporating elements beyond mere reproduction or the like, the [federal and state rights] are not equivalent and there is no preemption).

We conclude that the alleged contractual restriction on National's use of the licensed programs constitutes an

extra element in addition to the copyright rights making this cause of action qualitatively different from an action for copyright.

National initially contends that any complaint alleging use of a copyrighted work that exceeds the uses allowable under the license must be brought as a copyright infringement claim; contract claims containing such allegations are preempted. In support of this proposition, National cites several cases finding copyright infringement when the licensee's "use" of a copyrighted and licensed work exceeded the uses allowed under the license. *See S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir.1989); *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853 (9th Cir.1988); *Gilliam v. American Broadcasting Cos., Inc.*, 538 F.2d 14, 20 (2d Cir.1976); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 512 (9th Cir.1985); *Wolff v. Institute of Elec. & Elecs. Eng'rs, Inc.*, 768 F.Supp. 66, 69 (S.D.N.Y. 1991); *National Bank of Commerce v. Shaklee Corp.*, 503 F.Supp. 533, 544 (W.D.Tex.1980).

We believe that National reads these cases too broadly. First, only one of these cases involved preemption. *See Wolff*, 768 F.Supp. at 69. In *Wolff*, the plaintiff alleged that the defendant had both infringed his copyright and breached their contract by republishing a photograph licensed for only one publication. The court held that the breach of contract cause of action was preempted because, as the court construed it, the plaintiff merely alleged that the defendant breached their contract by infringing his copyright. *Wolff*, 768 F.Supp. at 69. None of the other cases involved preemption; however, in each, the conduct claimed as infringing involved one of the exclusive copyright rights. *See S.O.S.*, 886 F.2d at 1087

(licensee made a *copy* of the program and prepared a modified version without authorization); *Cohen*, 845 F.2d at 852 (company with a right to record musical composition for film and display film on television *also sold and rented* videocassettes to general public); *Gilliam*, 538 F.2d at 18 (defendant *televised edited version* of program without authorization); *Frank Music*, 772 F.2d at 512 (defendant staged musical revue in manner not allowed under the license); *Shaklee*, 503 F.Supp. at 544 (defendant inserted unauthorized advertising material into published work). Rather than stating a rule that any use exceeding the license is infringing, these cases establish that engaging in one of the acts reserved to the copyright holder under § 106, without a license to do so, is infringing. Moreover, the *Wolff* case stands at most for the proposition that a breach of contract claim alleging nothing more than an act of infringement is preempted. Given that we cannot read CA to allege that National engaged in one of the acts reserved to CA under § 106, these cases are inapposite.

Because we find no general rule holding breach of contract actions such as this one preempted, we examine specifically whether this cause of action seeks to protect rights equivalent to the exclusive copyright rights. We conclude that the contractual restriction on use of the programs constitutes an additional element making this cause of action not equivalent to a copyright action.

National disagrees with this characterization and attempts to read the term "use" in the license agreement as synonymous with the rights given to the copyright holder. We believe it is not, as two recent cases make clear.

In a case very similar to this one, involving CA, the court held that a contractual restriction on use of a computer program was distinct from the exclusive copyright rights. In *Computer Assocs. v. State St. Bank & Trust*, 789 F.Supp. 470 (D.Mass. 1992), the parties had executed a license that provided, *inter alia*: "Customer agrees to refrain from using the Equipment . . . for other customer-sites or customers on a service basis." *Id.* at 475. CA argued that State Street violated the provisions of the license agreement by allowing customers direct access to the programs to gain information. Because of that alleged breach, Computer Associates claimed that it could cancel their maintenance contract. State Street moved for a preliminary injunction prohibiting CA from cancelling the maintenance contract. CA then claimed that the violation of the agreements constituted copyright infringement, preventing State Street from claiming irreparable harm. In denying this claim, the court stated:

> Infringement results only from the unauthorized copying of copyrighted material. A use of an authorized copy of copyrighted subject matter ordinarily is not infringing. . . . Therefore, applicable limitations on State Street's use of the programs, if any, must be derived initially from the license agreements, not copyright law.

Id. at 472.

The Ninth Circuit reached a similar conclusion in *G.S. Rasmussen & Assocs. v. Kalitta Flying Serv.*, 958 F.2d 896 (9th Cir.1992). In *Kalitta*, the plaintiff had received from the FAA a certificate (STC) allowing him to modify a

plane design.[3] The defendant took the certificate from an existing, modified plane and used it to modify another plane, without paying the plaintiff for doing so. Plaintiff sued for unfair competition, and the defendant raised the defense of copyright preemption. The court first noted that there was no allegation of copying. It went on to hold that:

> Federal copyright law governs only copying. . . . Enforcement of Rasmussen's property right in his STC leaves Kalitta free to make as many copies of the certificate as it wishes; to the extent the manual supplement is not protected by the copyright laws, the same is true of it. That Kalitta is prevented from then using these copies to obtain an air-worthiness certificate from the FAA does not interfere in any way with the operation of the copyright laws.

Id. at 904.

In both of these cases, the courts distinguished restrictions on use of a copyrightable work that did not involve "copying" from the exclusive rights in copyright. CA's situation is the same. CA does not claim that National is doing something that the copyright laws reserve exclusively to the copyright holder, or that the

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[3] The FCC [sic] requires that all planes be of approved design. As a shortcut to examining every plane, the FCC [sic] approves a design for a class of planes. This requires significant testing. The FCC [sic] also approves modifications to existing approved design by issuing a certificate demonstrating that the modification is safe. Then, for any particular modified plane, a company can prove conformance by demonstrating that they have such a certificate and the design conforms to it.

use restriction is breached "by the mere act of reproduction, performance, distribution or display." Instead, on this posture, CA must be read to claim that National's or EDS's processing of data for third parties is the prohibited act. None of the exclusive copyright rights grant CA that right of their own force. Absent the parties' agreement, this restriction would not exist. Thus, CA is alleging that the contract creates a right not existing under the copyright law, a right based upon National's promise, and that it is suing to protect that contractual right. The contractual restriction on use of the programs constitutes an extra element that makes this cause of action qualitatively different from one for copyright.

We believe that the legislative history of the Copyright Act supports this conclusion. In elaborating the meaning of the term "equivalent rights" the House committee report to the Copyright Act suggests that breaches of contract were not generally preempted: "nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract." *See* H.R.Rep. No. 94-1476, 94th Cong., 2d Sess. 132, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748. This is not the end of the inquiry, however.

National contends that while the bill as initially drafted might have excluded breaches of contract from preemption, the bill as passed did not. National notes that § 301(b)(3)[4] of the Copyright Act, as initially drafted

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[4] Section 301(b)(3) initially provided that:

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any state with respect to –

* * *

and reported out of committee in the House, explicitly exempted breach of contract suits from preemption. This provision was then amended on the floor of the House to delete all the specific examples of non-preempted causes of action. National claims this action demonstrated congressional intent to remove the "safe harbor" from preemption for breach of contract actions. *See, e.g., Wolff v. Institute of Elec. & Elects. Eng'rs, Inc.*, 768 F.Supp. 66 (S.D.N.Y.1991) (deletion of safe harbor provision for breaches of contracts suggests that Congress did not intend generally to except them from preemption).

We disagree. Although the deletion of a provision from a final bill generally means that Congress intends to disavow what was formerly expressed, we believe in this case the facts surrounding the deletion of § 301(b)(3) suggest Congress did not intend to reverse the presumption of non-preemption for the examples initially included in § 301(b)(3). Instead, it appears that certain members of the House were concerned about the subsequent addition of the tort of misappropriation to the list of non-preempted causes of action, and suggested deletion of the specific examples in order to prevent confusion about the scope of preemption.[5] We agree with

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> (3) activities violating rights which are not equivalent to any of the exclusive rights within the general scope of copyright as specified by Section 106, including breaches of contract, breaches of trust, invasion of privacy, defamation, and deceptive trade practices such as passing off and false representation.

Sec. 301(b)(3), H.R. 4347, 89th Cong., 2d Sess. (1966).

[5] The version of the proposed Copyright Act sent to the House floor contained several additional items listed as

Professor Nimmer that "[i]t seems clear that the amendment that caused such deletion was not intended substantively to

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immune from preemption. One of these created great controversy: "misappropriation not equivalent to any of such exclusive rights." The Department of Justice objected to this exemption, stating that "[it] is almost certain to nullify preemption." Letter to Hon. Robert Kastenmeier, July 27, 1976, *cited in* 1 Nimmer on Copyright § 1.01[B], at 1-22. The bill was then amended on the House floor to delete all the specific examples of non-preempted causes of action. Rep. Seiberling described the reasons for that action as follows:

> Mr. Chairman, I offer an amendment [deleting all of the latter part of Section 301(b)(3) beginning with the word 'including,' followed by the examples of nonpreempted state created rights]. Mr. Chairman, my amendment is intended to save the 'Federal preemption' of State law section which is section 301 of the bill, from being inadvertently nullified because of the inclusion of certain examples in the exemptions from preemption. The amendment would simply strike the examples listed in section 301(b)(3). The amendment is strongly supported by the Justice Department, which believes that it would be a serious mistake to cite as an exemption from preemption the doctrine of 'misappropriation.' The doctrine was created by the Supreme Court in 1922 and it generally has been ignored by the Supreme Court and the lower courts ever since. Inclusion of a reference to the misappropriation doctrine in this bill, however, could easily be construed by the courts as authorizing the States to pass misappropriation laws. We should not approve such enabling legislation, because a misappropriation law could be so broad as to render the preemption section meaningless.

122 Cong.Rec. H10910 (daily ed.Sept. 22, 1976).

We agree that these remarks suggest that Congress did not intend to remove the exemption from preemption for those causes of action initially listed in § 301(b)(3). Rep. Seiberling

alter Section 301(b)(3) as regards [those examples originally included]." 1 Nimmer on Copyright § 1.10[B], at 1-22; *See also Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F.Supp. 1523, 1533 (S.D.N.Y.1985) (same); *Factors, Etc., Inc. v. Pro Arts, Inc.*, 496 F.Supp.1090 (S.D.N.Y.1980) (same). Thus, we believe, the better view is that the legislative history suggests a congressional intent not to preempt breach of contract actions such as this one.[6]

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stated that his concern was over "certain examples," and then went on to note that his main concern was the misappropriation example, which was added after the bill was initially drafted. We thus read his amendment striking the examples merely to remove the specific reference to misappropriation.

[6] We note that Nimmer has argued that the *Wolff* court was wrong to find preemption even though the act claimed to breach the contract involved one of the exclusive copyright rights. "Reverting to *Wolff*, the court could have required the plaintiff to adopt an election of remedies to the extent that the copyright and contract causes of action were deemed inconsistent. *See* § 10.15[A] *infra*. Alternatively, it could have determined that any damage for contract breach was already subsumed in the copyright recovery. *See* § 14.02[B] & n. 53.1 *infra*. Both those devices might have accomplished the same goal without reaching an erroneous preemption holding." 1 Nimmer on Copyright § 1.01[B], at 1-16.1. According to Nimmer, then, if a license agreement contains a provision prohibiting the licensee from copying the program, the licensor could sue for breach of contract rather than for copyright infringement. Other courts have concluded, however, that breach of contract actions in which the alleged breach consists of the exercise of one of the exclusive copyright rights are preempted. *See Wolff*, 768 F.Supp. at 69; *Howard v. Sterchi*, 725 F.Supp. 1572, 1579 (N.D.Ga.1989); *Brignoli v. Balch, Hardy & Scheinman, Inc.*, 645 F.Supp. 1201, 1205 (S.D.N.Y.1986) (a breach of contract claim for "unauthorized use of copyrightable material falls squarely within § 301 and is thus preempted"). Because we decide that the specific contract right CA seeks to enforce is not equivalent to any of the copyright

National contends, however, that such a conclusion fails to recognize the nature and value of computer software. According to National, computer software has value because it performs a function. National thus claims an allegation that it used the program for another is in fact an allegation that it distributed the "functionality" of the program. This argument fails. First, National cites to no authority in support of this position. Second, even with respect to computer software, the distribution right is only the right to distribute *copies of* the work. As Professor Nimmer has stated, "[i]nfringement of [the distribution right] requires an actual dissemination of either copies or phonorecords." 2 Nimmer on Copyright 8.11[A], at 8-124.1. Finally, courts have specifically held that copyright protection in computer software does not extend to the software's function. *See, e.g., Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 704 (2d Cir.1992). Thus, even if CA could be said to have alleged that National "distributed the functionality" of its program, such a claim would not protect a right equivalent to one of the exclusive rights in copyright.

Finally, National claims that CA's requested relief demonstrates its cause of action is equivalent to the exclusive rights under copyright. First, National notes that CA requested damages for unjust enrichment, damages National claims are preempted under § 301. National is correct in noting that certain courts have held claims

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rights, we do not need to decide whether a breach of contract claim based on a wrongful exercise of one of the exclusive copyright rights is preempted.

for unjust enrichment preempted when based upon allegations that the defendant engaged in one of the acts reserved to the copyright holder under § 106. We do not read CA to allege that National was unjustly enriched as a result of a wrongful exercise of one of the § 106 rights. Rather, we read this allegation of damage as a further explanation of the damages CA intends to prove arising from the breach of contract. CA alleges generally that it has been damaged in an amount to be proved at trial, and it will have to prove those damages. In this context, we read its allegations of unjust enrichment as an attempt, albeit inartful, to allege that National received from Lend Lease and Tilden amounts that CA would have received had National not breached their contract. Second, National notes that CA requested return or destruction of any copies of its programs still in National's possession. It notes that the Copyright Act provides precisely that remedy, *see* 17 U.S.C. § 504, and claims that the request for destruction shows the claim is equivalent to a copyright claim. We disagree. The parties' contract specifically provides for the return or destruction of the licensed programs upon any breach of the license agreement.[7]

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[7] The license agreement between CA and National provides that CA can terminate the license agreement immediately upon National's breach of any term of the agreement. J.A. at 27.

The license agreement between CA and National provides:

> If this Agreement should terminate for any reason, Licensee [National] shall certify in writing to CA that all copies or partial copies of the Licensed Program have been either returned to CA or otherwise destroyed and deleted from any computer libraries or storage devices and are no longer in use by Licensee.

J.A. at 26.

This remedy would apply equally to this asserted breach (improper use) as to an action for breach of an agreement to pay royalties or license fees, which National admits would not be preempted. Furthermore, the copyright remedy of return or destruction applies even absent a preexisting relationship between the parties: it does not have to be stated in a contract or license agreement. We cannot conclude that this action is preempted simply because the parties' contract provides a remedy for breach identical to a remedy provided in copyright.

III. CONCLUSION

For all the foregoing reasons, we conclude that CA's cause of action, as pled, is not preempted by the Copyright Act. Therefore, we reverse the order of the district court dismissing CA's first counterclaim with prejudice and remand for further proceedings consistent with this opinion.

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
THIRD DIVISION

NATIONAL CAR RENTAL SYSTEM, INC.,

Plaintiff,

v.

COMPUTER ASSOCIATES INTERNATIONAL, INC.,

Defendant.

Civ. 3-91-321

(Filed Jan. 17, 1992)

Memorandum Opinion and ORDER

Sally A. Scoggin and Scott G. Knudson, Briggs and Morgan, St. Paul, Minnesota and Peter J. Frazza, Leonard T. Nuara, and Robert J. Pansulla, Budd, Larner, Gross, Rosenbaum, Greenberg & Sade, Short Hills, New Jersey for plaintiff.

Allen W. Hinderaker and Polly A. Maier, Popham, Haik, Schnobrich & Kaufman, Minneapolis, Minnesota for defendant.

In this declaratory judgment action brought by plaintiff National Car Rental System, Inc. (National) to determine the propriety of National's use of computer software licensed by defendant Computer Associates International, Inc. (CA), National moves the court to (1) enter judgment on the pleadings against CA's counterclaims for breach of contract and copyright infringement, and (2) pursuant to 28 U.S.C. § 1927, order CA to reimburse National for its costs and attorneys' fees incurred

in defending CA's previous motion to dismiss. For the reasons set forth below, the court will grant National's motion for judgment on the pleadings insofar as the motion attacks CA's breach of contract counterclaim. To the extent National's motion for judgment on the pleadings attacks CA's copyright infringement counterclaim, the court will convert the motion to one for summary judgment and deny the motion for summary judgment. Finally, the court will deny National's motion for costs and attorneys' fees.

Background

National sells and leases vehicles and has, since 1972, utilized various computer systems in the operation of its business. Among other activities, CA licenses computer software to businesses.

National obtained nonexclusive licenses from CA's predecessors for the use of six software products. Essentially, the licenses permitted National to use the software in connection with its data processing equipment in Minneapolis, Minnesota. In 1990 National decided to obtain additional computer equipment, primarily to provide for a backup system in the event of an emergency. After some deliberation, National ceased internal computer operations and contracted with a computer services vendor, Electronic Data Systems Corporation (EDS), to furnish data processing services to National.

For EDS to provide these services, it was necessary to transfer or "migrate" all of National's data and software to EDS's facility in North Carolina. The licenses which National had obtained from CA's predecessors did not

authorize this migration to EDS's facility. National and CA, therefore, negotiated and executed a "supplement addendum." The supplement addendum permits the migration of National's data and software to North Carolina and authorizes EDS to use the licensed software in connection with furnishing data processing services to National. The supplement addendum contained a new nonexclusive license agreement which the parties executed as well. To accomplish the migration, National made copies of certain of the licensed programs.

Sometime thereafter, CA notified National of two objections it had to National's use of the software. First, CA objected to National's use of the software in connection with two of National's affiliates, Lend Lease Trucks, Inc. (Lend Lease) and Tilden Car Rental, Inc. (Tilden). Second, CA asserted that the supplement addendum did not authorize National to facilitate the migration from Minnesota to North Carolina by making a copy of the licensed software.

In response to threats of litigation made by CA, National filed this declaratory judgment action. National seeks declarations with respect to two issues: (1) whether National's use of the licensed software in connection with the activities of Lend Lease and Tilden infringes CA's copyrights in the software; and (2) whether National's act of copying the licensed software during the migration from Minnesota to North Carolina infringed CA's copyrights in the software.

On July 9, 1991, CA moved the court to dismiss this action for lack of subject matter jurisdiction. In support of

the motion, CA argued that National's declaratory judgment action does not arise under the copyright laws but is, in substance, a contract dispute. During oral argument upon CA's motion to dismiss, CA conceded that the issue of whether National had the right to copy the licensed software probably arises under copyright law. Transcript of Motion Hearing at 4. CA also represented to the court that it likely would pursue a claim for copyright infringement. By order dated August 26, 1991, the court denied CA's motion to dismiss.

On September 12, 1991, CA filed an answer to National's complaint and two counterclaims. CA's first counterclaim is styled as a breach of contract claim and charges that National breached each of the license agreements and the supplement addendum by using and permitting the use of the licensed software for the benefit of Lend Lease and Tilden. Answer and Counterclaims of Defendant at 5-7, ¶¶ 30-39. CA's second counterclaim arises under the Copyright Act, 17 U.S.C. §§ 101-913, and charges that National infringed CA's copyrights by duplicating the licensed software in connection with the migration to North Carolina. *Id.* at 7-9, ¶¶ 40-52.

Discussion

A.

National moves the court to enter judgment on the pleadings against CA's two counterclaims pursuant to Fed. R. Civ. P. 12(c). The court may grant a motion for judgment on the pleadings only if "the movant clearly establishes that no material issue of fact remains to be resolved and he is entitled to judgment as a matter of

law." *Iowa Beef Processors, Inc. v. Amalgamated Meat Cutters and Butcher Workmen of North America, AFL-CIO*, 627 F.2d 853, 855 (8th Cir. 1980). The court must "construe all well pleaded factual allegations of the non-moving party as true, and . . . draw in favor of that party all reasonable inferences from these facts." *Id.; Pinto v. International Set, Inc.*, 650 F. Supp. 306, 308 (D.Minn. 1986). If "matters outside the pleadings are presented to and not excluded by the court," Rule 12(c) requires the court to treat the motion for judgment on the pleadings as a motion for summary judgment and furnish the parties a "reasonable opportunity to present all material made pertinent to [the] motion." Fed. R. Civ. P. 12(c).

In opposition to National's motion for judgment on the pleadings, CA has submitted an affidavit accompanied by five exhibits. Three of the five exhibits (C, D, and E) appear to have been submitted in opposition to National's motion for judgment on the pleadings insofar as the motion attacks CA's breach of contract counterclaim. The court finds it unnecessary to consider these three exhibits to resolve National's motion and excludes them.

On the other hand, CA submitted the two remaining exhibits (A and B) in opposition to National's motion for judgment on the pleadings insofar as the motion attacks CA's copyright infringement counterclaim. The court has considered these two exhibits in resolving the motion. Because the court has considered these matters outside the pleadings, to the extent National's motion assails

CA's copyright infringement counterclaim the court must treat the motion as one for summary judgment.[1]

B.

The court first analyzes National's motion for judgment on the pleadings against CA's breach of contract counterclaim. National contends the Copyright Act preempts this counterclaim. According to National, CA's breach of contract counterclaim seeks to enforce rights that are equivalent to the exclusive rights afforded works of authorship under the Copyright Act. Specifically, National argues that CA seeks redress for allegedly unauthorized reproduction, performance, distribution, or display. CA maintains in response that the facts underlying its breach of contract counterclaim (as they are presently known) do not support a copyright infringement claim. CA also maintains that its contract counterclaim contains elements in addition to and distinct from the elements of a copyright infringement claim.

The enforcement mechanisms of the Copyright Act provide the exclusive source of protection for "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106" of the Copyright Act. 17 U.S.C. § 301(a). A state law claim is preempted by the Copyright Act if (1)

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[1] *See Lafer Amster & Co. v. Stone Container Corp.*, 690 F. Supp. 1356, 1357 (S.D.N.Y. 1988) (where affidavits submitted in connection with a motion for judgment on the pleadings related to certain claims but not others, the court converted the motion to a motion for summary judgment only with respect to those claims to which the affidavits related).

the work at issue is within the subject matter of copyright as defined in 17 U.S.C. §§ 102 and 103, and (2) the state law created right is equivalent to any exclusive copyright rights enumerated in 17 U.S.C. § 106. *Wojnarowicz v. American Family Association*, 745 F. Supp. 130, 135 (S.D.N.Y. 1990) (quoting *Brignoli v. Balch Hardy and Scheinman, Inc.*, 645 F. Supp. 1201, 1204 (S.D.N.Y. 1986)). A state law cause of action is not preempted if it protects a right "qualitatively different" from a right granted under Copyright Act. *Wolff v. Institute of Electrical and Electronics Engineers, Inc.*, 768 F. Supp. 66, 69 (S.D.N.Y. 1991). When identical predicate acts supply the basis for both a state law claim and a copyright claim, the state law claim is preempted. *Harper & Row Publishers, Inc. v. Nation Enterprises*, 723 F.2d 195, 200 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539, 105 S.Ct. 2218 (1985). Conversely, a state law claim is not preempted if it contains an extra element that " 'changes the nature of the action so that it is *qualitatively* different from a copyright infringement claim.' " *Xerox Corp. v. Apple Computer, Inc.*, 734 F. Supp. 1542, 1550 (N.D.Cal. 1990) (citations omitted) (emphasis in original).

Here, the parties agree that the licensed software falls within the subject matter of copyright. The court focuses, therefore, on whether CA's breach of contract counterclaim seeks to protect rights equivalent to any of the exclusive copyright rights enumerated in 17 U.S.C. § 106. Section 106 confers upon copyright owners the exclusive rights "to do and to authorize" the following:

> (1) reproduction of the copyrighted work in copies or phonorecords;

> (2) preparation of derivative works based upon the copyrighted work;
>
> (3) distribution of copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, public performance of the copyrighted work; and
>
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, public display of the copyrighted work.

17 U.S.C. § 106.

As noted earlier, National argues the right sought to be enforced by CA through its breach of contract counterclaim is equivalent to CA's exclusive right to reproduce, perform, distribute, or display the licensed software. Unfortunately, National fails entirely to expound upon this contention. National does not attempt to demonstrate how CA's counterclaim equals any of the exclusive rights set forth in section 106. Examination of the plain language of section 106 leads the court to conclude that CA's breach of contract counterclaim is not intended to protect a right equivalent to the reproduction, performance, or display rights. CA does not allege that National reproduced the licensed software for the benefit of Lend Lease or Tilden. In its *copyright infringement* counterclaim, CA alleges National copied the licensed software to facilitate

its migration from Minnesota to North Carolina. This allegation is unrelated, however, to CA's breach of contract counterclaim. In addition, the court is unable to discern how the licensed software at issue was or could have been publicly performed or displayed for the benefit of Lend Lease or Tilden.

The court is left to determine whether the right asserted by CA through its breach of contract counterclaim is equivalent to the distribution right enumerated in section 106(3). Section 106(3) confers upon the copyright owner the "exclusive right publicly to sell, give away, rent or lend any material embodiment of his work." 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.11[A] (1991). A publication (i.e. distribution) may be found to have occurred when a copy of the copyrighted work reaches one person. *Ford Motor Co. v. Summit Motor Products, Inc.*, 930 F.2d 277, 299 (3d Cir. 1991), *cert. denied*, ___ U.S. ___, 112 S.Ct. 373 (1991).

CA alleges, in essence, that "National has used and permitted the use of the Licensed Programs for the processing of data for the benefit of third parties" including Lend Lease and Tilden. Answer and Counterclaims of CA at 6, ¶ 36. CA alleges it has suffered damages in the form of lost license and maintenance fees and further avers that "National has been unjustly enriched by any fees or other compensation received from those third-parties for use of the licensed programs for their benefit." *Id.* at 6-7, ¶ 37. Construed as true, CA's allegations reflect the existence of a lease arrangement between National and Lend Lease and Tilden: National has permitted Lend Lease and Tilden to use the licensed software in exchange for payment. The distribution right includes specifically the right

to lease or lend. CA points out correctly that its breach of contract counterclaim contains elements distinct from those contained in a copyright infringement claim, namely, the existence of a contract and the performance of conditions precedent.[2] The presence of these elements, however, does not alter the nature of the action. In essence, CA alleges National breached the license agreement by infringing CA's copyrights in the licensed software.[3] The court concludes that CA, through its breach of contract counterclaim, seeks to enforce a right which is not qualitatively different from the distribution right enumerated in section 106(3). The court will grant National's motion for judgment on the pleadings insofar as it attacks CA's breach of contract counterclaim.

C.

The court next analyzes National's motion for summary judgment against CA's copyright infringement counterclaim.[4] National contends CA should be judicially

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[2] *See Industrial Rubber Applicators v. Eaton Metal Products Co.*, 171 N.W.2d 728, 285 (Minn. 1969), *overruled on other grounds, Standslast v. Reid*, 231 N.W.2d 98, 103 (Minn. 1975).

[3] *See Wolff*, 768 F. Supp. at 69 (breach of contract claim does not protect qualitatively different right where alleged breach resulted solely from defendant's infringement of plaintiff's copyright); *compare Howard v. Sterchi*, 725 F. Supp. 1572, 1578-79 (N.D.Ga. 1989) (breach of contract claim protects qualitatively different right where alleged breach resulted from acts in addition to or other than copyright infringement).

[4] As discussed earlier, the court has converted National's motion for judgment on the pleadings against CA's copyright infringement counterclaim to a motion for summary judgment.

estopped from asserting its copyright infringement counterclaim because the claim is inconsistent with CA's previous posture in this litigation. As noted in the background section of this memorandum opinion, CA earlier moved the court to dismiss this action for lack of jurisdiction on the ground that National's complaint for a declaratory judgment did not arise under the copyright laws. CA argues in response that judicial estoppel is a disfavored doctrine. CA maintains it has been forthright with the court.

"[J]udicial estoppel precludes a party from asserting a position in a legal proceeding which is inconsistent with a position taken by that party in the same or a related proceeding." *Held v. Mitsubishi Aircraft International, Inc.*, 672 F. Supp. 369, 391 (D.Minn. 1987). The doctrine of judicial estoppel exists principally to protect the integrity of the judicial process from a knowing misrepresentation or a fraud on the court. *Total Petroleum, Inc. v. Davis*, 822 F.2d 734, 737 n.6 (8th Cir. 1987); *Pako Corp. v. Citytrust*, 109 B.R. 368, 377 (D.Minn. 1989).[5]

In accordance with Rule 12(c), the court has given the parties a reasonable opportunity to submit all material made pertinent to the motion. On Friday, January 10, the court telephoned counsel for all parties and informed them of the court's decision to convert National's motion for judgment on the pleadings against CA's copyright infringement counterclaim to a motion for summary judgment.

[5] At least one district court has expressed doubt as to whether judicial estoppel is a viable doctrine within the Eighth Circuit. *In re Air One, Inc.*, 75 B.R. 998, 1002 (Bankr.E.D.Mo. 1987).

Here, CA's assertion of a copyright infringement counterclaim is not sufficiently inconsistent with its previous dismissal motion to threaten the integrity of the judicial process or warrant the application of judicial estoppel. CA articulated a reasoned (albeit flawed) argument in support of its motion to dismiss. CA notified the court during oral argument on its motion to dismiss that it likely would file a copyright infringement counterclaim. What inconsistency attends CA's position appears principally to have been caused by an innocent misunderstanding of National's complaint for declaratory relief. CA has not misrepresented the nature of its litigation posture nor does it appear to have attempted some fraud upon the court. The court will, therefore, deny National's motion for summary judgment against CA's copyright infringement counterclaim.

D.

National moves the court under authority of 28 U.S.C. § 1927 to order CA to reimburse National for its attorneys' fees and costs incurred defending CA's motion to dismiss. The court entertained oral argument on CA's motion to dismiss nearly five months ago, on August 26, 1991.

Section 1927 provides:

> Any attorney or other person admitted to conduct cases in any court of the United States . . . who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct.

28 U.S.C. § 1927. "The standard under § 1927 and Rule 11 is whether the attorney's conduct 'viewed objectively, manifests either intentional or reckless disregard of the attorney's duties to the court.' " *Perkins v. Spivey*, 911 F.2d 22, 36 (8th Cir. 1990), *cert. denied*, ___ U.S. ___, 111 S.Ct. 1309 (1991) (quoting *Braley v. Campbell*, 832 F.2d 1504, 1512 (10th Cir. 1987) (en banc)); *compare NAACP-Special Contribution Fund v. Atkins*, 908 F.2d 336, 340 (8th Cir. 1990) (analysis under section 1927 slightly different than analysis under Rule 11 because section 1927 requires finding of objectively unreasonable behavior *and* bad faith).

CA advanced essentially two contentions in support of its motion to dismiss for lack of subject matter jurisdiction. First, CA argued that National's use of the licensed software for the benefit of Lend Lease and Tilden constituted a violation of the license agreements between the parties and did not amount to a violation of any rights enumerated in the copyright act. *See* Transcript of Motion Hearing at 3. With respect to this contention, the extent and character of discussion and authority set forth in part B of this memorandum opinion demonstrates adequately that CA's position, though erroneous, was asserted reasonably. Second, while CA conceded that National's act of copying the licensed software implicated a copyright right, CA maintained that a line of cases (the so-called "essence" cases) provided authority for dismissing the case. In brief, CA interpreted these cases to permit dismissal of a complaint raising "minor" copyright issues if the essence of the complaint concerned principally non-federal issues. CA maintained as well that the judicial

policy favoring the early determination of federal jurisdiction supported (and motivated) the filing of its motion. In sum, CA's counsel supported the motion with reasoned argument and citation to authority. It does not appear to the court that counsel filed the motion to achieve some improper purpose. Indeed, National's motion for attorneys' fees and costs appears designed principally as a response to CA's copyright infringement counterclaim. If, as National now contends, CA's motion to dismiss was groundless, National should have moved the court to impose sanctions when the court considered the motion last August. The court finds that CA's counsel's conduct in bringing the motion to dismiss manifested neither an intentional or reckless disregard for counsel's duties nor bad faith. The court will deny National's motion for attorneys' fees and costs.

ORDER

Based upon the foregoing, and all the files and proceedings herein, IT IS ORDERED that:

1. National's motion for judgment on the pleadings against Computer Associates' breach of contract counterclaim is **GRANTED**;

2. National's motion for judgment on the pleadings against Computer Associates' copyright infringement counterclaim is **CONVERTED** to a motion for summary judgment and the motion for summary judgment is **DENIED**;

3. National's motion for costs and attorneys' fees is **DENIED**.

Dated: January 17, 1992

/s/ Edward J. Devitt
EDWARD J. DEVITT
United States District Judge

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
THIRD DIVISION

NATIONAL CAR RENTAL SYSTEM, INC.,

Plaintiff,

v. Civ. 3-91-321

COMPUTER ASSOCIATES INTERNATIONAL, INC., **ORDER**

Defendant. (Filed Mar. 13, 1992)

Briggs and Morgan by SALLY A. SCOGGIN, Esq. and SCOTT G. KNUDSON, Esq. of St. Paul, Minnesota and Budd, Larner, Gross, Rosenbaum, Greenberg & Sade by PETER J. FRAZZA, Esq., LEONARD T. NUARA, Esq. and ROBERT J. PANSULLA, Esq. of Short Hills, New Jersey appeared for plaintiff National Car Rental System, Inc.

Popham, Haik, Schnobrich & Kaufman by ALLEN W. HINDERAKER, Esq. and POLLY A. MAIER, Esq. of Minneapolis, Minnesota appeared for defendant Computer Associates International, Inc.

Mackall, Crounse & Moore by STEPHEN P. KELLEY, Esq. and BRADLEY J. HALBERSTADT, Esq. of Minneapolis, Minnesota and Lamar, Archer & Cofrin by ROBERT C. LAMAR, Esq. of Atlanta, Georgia appeared for applicant for intervention Lend Lease Trucks Inc.

This matter came on for hearing before this court on March 13, 1992 upon the motion of defendant Computer Associates International, Inc. to reconsider the order issued January 17, 1992 granting plaintiff National Car

Rental System, Inc.'s motion for judgment on the pleadings against defendant's breach of contract counterclaim.

Based upon the foregoing, the submissions of the parties, arguments of counsel, and all the files, records, and proceedings herein, and finding no just reason for delay in the entry of judgment on the court's January 17 order,

IT IS HEREBY ORDERED That:

1. Computer Associates International, Inc.'s motion to reconsider the court's order of January 17, 1992, granting National Car Rental, Inc.'s motion for judgment on the pleadings against Computer Associates International, Inc.'s breach of contract counterclaim [docket entry no. 36] is DENIED; and

2. The Clerk of Court shall enter judgment as follows:

> IT IS ORDERED, ADJUDGED AND DECREED That defendant Computer Associates International, Inc.'s breach of contract counterclaim is dismissed with prejudice because it seeks to enforce a right which is not qualitatively different from the distribution right enumerated in 17 U.S.C. § 106(3).

Dated: March 13, 1992

/s/ Donald D. Alsop
DONALD D. ALSOP
United States District Judge

UNITED STATES DISTRICT COURT

District of MINNESOTA

National Car Rental System, Inc.

V.

Computer Associates International, Inc.

JUDGMENT IN A CIVIL CASE

CASE NUMBER: Cv 3-91-321

[ ] **Jury Verdict.** This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

[X] **Decision by Court.** This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

IT IS ORDERED AND ADJUDGED that defendant Computer Associates International, Inc.'s breach of contract counterclaim is dismissed with prejudice because it seeks to enforce a right which is qualitatively different from the distribution right enumerated in 17 U.S.C. § 106(3).

March 13, 1992
Date

Francis E. Dosal
Clerk

/s/ Patricia J. Sabin
(By) Deputy Clerk

Patricia J. Sabin

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
___ DIVISION

NATIONAL CAR RENTAL SYSTEM, INC., Plaintiff, v. COMPUTER ASSOCIATES INTERNATIONAL, INC., Defendant.	DOCKET NO. Civil Action COMPLAINT FOR DECLARATORY RELIEF

Plaintiff, National Car Rental System, Inc. ("National"), for its declaratory judgment complaint, says:

NATURE OF DISPUTE

1. In this action, National seeks a declaration under 28 U.S.C. 2201 *et seq.* establishing that the license agreements between National and Computer Associates International, Inc. grant to National a license to use certain licensed computer software for its business activities, that National is entitled to make a second copy of the licensed software for a short term use, and that National has not infringed Computer Associates' copyrights.

THE PARTIES

2. National is a corporation organized under the laws of Delaware, with its principal place of business located at 7700 France Avenue, South, Minneapolis, Minnesota.

3. Defendant, Computer Associates International, Inc., is a corporation organized under the law of Delaware with its principal place of business located at 711 Stewart Avenue, Garden City, New York, ("CA"), is either the successor in interest to the following companies or purchased the rights to sell the following companies' software products: University Computing Company ("UCC"), California Software, Inc. ("CSI"), the Cambridge Systems Group, Inc. ("Cambridge"), and UCCEL Corporation ("UCCEL"). CA is in the business of providing software, software maintenance and consulting services.

JURISDICTION AND VENUE

4. The agreements at issue in this case were negotiated and entered into in Minneapolis, Minnesota. This court has federal question jurisdiction because issues raised herein involve the interpretation of the United States Copyright laws, 17 U.S.C. 101 *et seq.* Venue in the court is proper pursuant to 28 U.S.C. 1391. There is an actual controversy between the parties.

BACKGROUND

5. National is in the business of renting/leasing and selling vehicles.

6. National presently utilizes, and has since 1972 utilized various computer systems in the operation of its business.

7. Beginning in 1947 with the formation of a predecessor company of National, National has operated in various markets through system licensees and affiliates.

8. In approximately 1954 National established an affiliation with Tilden Car Rental, Inc., a Canadian company, which is a rental car provider throughout Canada.

9. In approximately 1968 National established a truck rental and leasing division which became a wholly owned subsidiary on December 31, 1986 named Lend Lease Trucks, Inc. ("Trucks"). The common stock of Trucks was later sold to a third party with National retaining a preferred stock interest.

LICENSE AGREEMENTS

10. Beginning in January, 1974, and on various dates until December, 1985, National licensed six software products (hereinafter "Licensed Software") from various CA predecessor companies.

11. In particular, National licensed the following software products on the following dates:

SOFTWARE PRODUCT	LICENSE DATE	TERM	FEE	ORIGINAL LICENSOR
UCC-1	1/25/74	Unlimited	$10,000	UCC
UCC-NINE	4/27/81	99 years	$10,200	UCC
ACF2	2/25/82	Perpetual	$45,000	Cambridge
UCC-SEVEN	11/28/74	Unlimited	$59,000	UCCEL

UCC-ELEVEN	11/28/74	Unlimited	$15,200	UCCEL
NETMAN	12/27/85	99 years	$37,500	CSI

12. The licenses granted National the right to use the Licensed Software on National's computer processing equipment located at it [sic] headquarters, first located at 5501 Green Valley Drive, Bloomington, Minnesota, and later at 7700 France Avenue South, Minneapolis, Minnesota.

13. National has used the Licensed Software in its business activities consistent with the licenses, including the activities relating to Tilden and Trucks.

NATIONAL'S NEED TO MIGRATE TO A NEW COMPUTER SYSTEM

14. In 1990 National determined that it needed additional computer capacity. Further, since National's business is dependent on the constant availability of continuous computer operation it needed to establish disaster recovery protection. A disaster recovery plan requires the availability to a second set of computer hardware in the event that the original computer hardware fails, malfunctions, or is otherwise physically unavailable (e.g., fire). To implement such a disaster recovery program National would be required to purchase and implement a second computer installation. Such an installation would sit idle until a disaster struck.

15. To avoid the cost of upgrading its existing computer system, and further to avoid the costs of establishing a second computer system for disaster recovery,

National decided to contract with an independent computer services vendor with adequate computer hardware resources (i.e., sufficient capacity and duplicate computer systems). That vendor is Electronic Data Systems Corporation ("EDS"). EDS has a computers [sic] at its facility in North Carolina with the additional capacity that National's processing demands required, and EDS has duplicate computer hardware in the event of a disaster.

THE EDS AGREEMENT

16. As a result of its discussions and negotiations with EDS National decided to cease its internal computer operations and contract with EDS to assume complete responsibility for all National computer operations.

17. On December 31, 1990, National and EDS executed a contract whereby EDS agreed to perform all of National's computer operations (the "EDS Agreement").

18. As a consequence of the EDS Agreement, National sold to EDS its computer hardware. EDS would continue to use that hardware to process National's information until a transfer could be made to EDS' computer facility in North Carolina.

19. In order to allow EDS to perform National's computer operations on EDS' computers, National and EDS had to transfer or migrate all National's data and computer software from National's computer installation located in Minnesota to EDS' computers in North Carolina. A successful migration to EDS' computer facility was essential to the continued operation of National's business.

20. The successful migration to EDS' computer facility required a second copy of the Licensed Software to test and implement the migration. Without the use of a second copy of the Licensed Software National could not perform a successful migration and would suffer irreparable harm to its business.

21. National and EDS began communications with its various software licensors, including CA, for the licensors' consent to transfer National's license agreements to EDS.

22. In this regard, National and EDS negotiated with CA to obtain the right for EDS to operate the Licensed Software on EDS' computers.

THE SUPPLEMENT ADDENDUM

23. As a result of the negotiations between National, EDS and CA, on March 26, 1991 National, EDS and CA executed the "Facility Management Supplement Addendum to License Agreement And Order Form between Computer Associates, International, Inc., National Rental Car System, Inc. and Electronic Data Systems Corporation" ("Supplement Addendum"), which included an effective date of December 31, 1990. The agreement provides, among other things, that the Licensed Software may be utilized by EDS.

24. The Supplement Addendum also provides in paragraph 3 that the licensed programs can be transferred to a new location to be operated by EDS without a relocation or other charge to National or EDS.

25. The Supplement Addendum included a copy of a new License Agreement between Computer Associates and National (the "1990 CA License Agreement").

26. CA advised National that 1990 CA License Agreement was a continuation of the previous Licensed Software license agreements and that National could continue to utilize the Licensed Software as it had since 1974.

CA'S CLAIMS OF COPYRIGHT INFRINGEMENT BY NATIONAL'S UNAUTHORIZED USE

27. After the execution of this agreement National and EDS continued a dialogue with CA regarding the movement or migration of National computer operations to EDS' facility located in North Carolina.

28. During these discussions CA raised objections to National's use of the Licensed Software for activities relating to Tilden or Trucks, alleging that National has and is continuing to exceed the license grant, and thus is infringing CA's statutory copyrights. National stated that such use was consistent with the terms of all the licenses for the Licensed Software and does not constitute an infringement.

29. CA demanded payment of additional licenses fees for past and future use of the Licensed Software in the amount of approximately $2.3 million.

30. National has declined to pay CA any additional past or future license fees for the use of the Licensed Software.

NATIONAL'S ALLEGED INFRINGEMENT BY MAKING UNAUTHORIZED COPIES

31. Pursuant to Paragraph 4 of the Supplement Addendum, National is authorized to make a second copy of the Licensed Software to facilitate a migration to a new computer system.

32. National advised CA that a second copy of the Licensed Software was being made to facilitate the migration to EDS' computers in North Carolina.

33. On May 17, 1991 National received a letter from CA advising National that it was not authorized to make a second copy of the Licensed Software until National paid license fees that CA contended were owed for the past and future use of the Licensed Software for the activities relating to Trucks and Tilden.

34. Notwithstanding CA's impermissible attempt to prevent the migration, National was compelled to continue with the migration consistent with National's rights under the Supplement Addendum and has not infringed any copyrights of CA.

NEED FOR DECLARATORY RELIEF

35. National asserts that a controversy exists between it and CA regarding National's rights to use the Licensed Software for its business, including activities relating to Tilden and Trucks and regarding National's right to copy the Licensed Software to facilitate the successful and essential migration between hardware locations.

36. National further asserts that conflicting legal interests exist between National and CA indicating imminent and inevitable litigation.

37. National is subject to uncertainty and insecurity with respect to its rights, including National's right to use CA's copyrighted works, status, and relationship with CA, which National believes could irreparably harm National's business operations, if this matter is not promptly and expeditiously resolved.

WHEREFORE, National demands declaratory judgment establishing the following:

1. National has not infringed any copyright CA has in the Licensed Software and National has the right to use the Licensed Software for its business, including activities relating to Tilden and Trucks without the payment of additional fees for past or future use.

2. The Facility Management Supplement Addendum to License Agreement And Order Form between CA, National and EDS is effective to provide National or National's designee with the right to transfer licensed programs to a new location to be operated by EDS without a relocation or other charge to National or EDS.

3. National has not breached any term of the licenses for the Licensed Software.

4. National has not breached any term of the Supplement Addendum.

5. Costs of suit and reasonable attorneys' fees.

6. Such further relief this court deems appropriate.

BRIGGS AND MORGAN

By /s/ Sally Scoggin
Sally A. Scoggin (#98358)
Scott G. Knudson (#141987)
2200 First National Bank Bldg.
St. Paul, MN 55101
(612) 291-1215
Attorneys for Plaintiff

OF COUNSEL:

BUDD LARNER GROSS ROSENBAUM
GREENBERG & SADE, P.C.
Michael M. Rosenbaum
David R. Gross
Peter J. Frazza
Leonard T. Nuara

150 John F. Kennedy Parkway, CN1000
Short Hills, New Jersey 07078-0999
(201) 379-4800

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
THIRD DIVISION

National Car Rental System, Inc., Plaintiff, vs. Computer Associates International, Inc., Defendant.	DOCKET NO. CV 3-91-321 *ANSWER AND COUNTERCLAIMS OF COMPUTER ASSOCIATES INTERNATIONAL, INC.* JURY TRIAL DEMANDED

Computer Associates International, Inc. (hereafter "CA") for its answer to the complaint states:

First Defense

1. Does not have sufficient knowledge or information to form a belief regarding the truth of the allegations of paragraph 1, although it acknowledges this as plaintiff's statement of the nature of the dispute.

2. Does not have sufficient knowledge or information to form a belief regarding the truth of the allegations of paragraph 2.

3. Admits the allegations of paragraph 3.

4. Admits the allegations of paragraph 4 to the extent the Court has ruled there is subject matter jurisdiction by Order dated August 26, 1991, and that there is an actual controversy between the parties, but does not have sufficient knowledge or information to form a belief

regarding the truth of the allegations of the first sentence of paragraph 4.

5. Admits the allegations of paragraph 5.

6. Does not have sufficient knowledge or information to form a belief regarding the truth of the allegations of paragraph 6, except that CA admits National utilizes computer systems in the operation of its business.

7. Does not have sufficient knowledge or information to form a belief regarding the truth of the allegations of paragraphs 7, 8, and 9.

8. Admits the allegations of paragraph 10 to the extent that software was licensed from predecessor companies between the stated dates.

9. Denies the allegations of paragraph 11, except CA admits that the described software was licensed on or about those dates with the exception of the products licensed from UCCEL, which were licensed in 1984.

10. Admits the allegations of paragraph 12, except CA does not have sufficient knowledge or information to form a belief regarding the truth of the allegation that the stated addresses were "headquarters".

11. Denies the allegations of paragraph 13.

12. Does not have sufficient knowledge or information to form a belief regarding the truth of the allegations of paragraphs 14, 15, 16, 17, 18, 19, and 20, except that CA admits that EDS has agreed to process data for National.

13. Does not have sufficient knowledge or information to form a belief regarding the truth of the allegations

of paragraph 21, except CA admits it was contacted regarding permission to allow EDS access and use of licensed software.

14. Denies the allegations of paragraph 22, except CA admits it entered into a Facility Management Supplement Addendum To License Agreement And Order Form Between Computer Associates International, Inc., National Car Rental Systems, and Electronic Data Systems Corporation, a copy of which is attached as Exhibit A and incorporated by reference. EDS was permitted access and utilization of the Licensed Programs on designated CPUs at the location of the Installation as stated in that Agreement for the sole and exclusive use and benefit of National and no other entity.

15. Admits the allegations of paragraph 23.

16. Admits the allegations of paragraph 24 to the extent that it accurately paraphrases that provision of the Supplement Addendum and is limited in its meaning to the subject matter of that paragraph 3.

17. Admits the allegations of paragraph 25 to the extent that National and Computer Associates entered into a new License Agreement in conjunction with the Supplement Addendum for the sole and exclusive use and benefit of National and no other entity. A copy of that License Agreement is attached as Exhibit B and incorporated by reference.

18. Denies the allegations of paragraph 26, except that CA admits that the Licensed Programs identified on Schedule A of the Order Form are the subject of the License Agreement and those programs were the subject

of various earlier license agreements with National, which earlier license agreements were superseded and replaced by the terms and conditions of the 1990 License Agreement. A copy of the Order Form is attached as Exhibit C and incorporated by reference.

19. Admits the allegations of paragraph 27.

20. Denies the allegations of paragraphs 28 and 29, except CA admits that it has objected to and continues to object to any breach of the license grant, under the previous license agreements and the 1990 License Agreement, including any use of the Licensed Programs for any purpose other than the internal operations of National and for only the processing of its own data. National's breach of the License Agreements and the Supplement Addendum, or any other contract with CA, entitles CA to damages amounting to millions of dollars.

21. Admits the allegations of paragraph 30.

22. Denies the allegations of paragraph 31.

23. Denies the allegations of paragraph 32 and affirmatively states that EDS gave notice of its plans to make a second copy to which CA objected.

24. Denies the allegations of paragraph 33, except CA admits that by letter dated May 17, 1991, it advised National that additional license authorization and related fees for processing for the benefit of Trucks and Tilden were due, that CA would not consent to parallel processing or testing at both the Minnesota and North Carolina sites until such material breaches were fully cured, and that upon that consent an additional parallel processing

license authorization and related fee would be due and payable from National.

25. Denies the allegations of paragraph 34.

26. Denies the allegations of paragraphs 35, 36, and 37, except CA admits there is a controversy between the parties.

27. Except as otherwise admitted, qualified, or denied, denies each and every allegation of the complaint.

Second Defense

28. The claims of the complaint are barred, in whole or in part, by the parol evidence rule and the doctrine of integration.

Third Defense

29. The complaint fails, in whole or in part, to state a claim upon which relief can be granted.

Computer Associates International, Inc. for its counterclaims against National Car Rental System, Inc. states:

First Counterclaim

30. The Court has supplemental jurisdiction over this counterclaim pursuant to 28 U.S.C. §1367. It arises from the same case or controversy of the complaint with damages in excess of $50,000.

31. Pursuant to the 1990 License Agreement, Exhibit B, the authorization for use granted National was for the

internal operations of National and for the processing of its own data.

32. Pursuant to the Supplement Addendum, Exhibit A, it was agreed that the Licensed Programs would be used solely for the benefit of National and subject to the rights, obligations and benefits in all respects of the terms and conditions of the License Agreement.

33. Pursuant to the Supplement Addendum, Exhibit A, National and EDS further agreed, among other things, to use the Licensed Programs subject to the terms and conditions of the License Agreement, and solely to process data of National and in no event for the processing of data of any third party other than National.

34. Schedule A of the Order Form, Exhibit C, identifies the products licensed pursuant to the License Agreement, Exhibit B. Those products are also the subject of the Supplement Addendum, Exhibit A. National has been a licensee of these products for many years under various License Agreements with predecessor companies to CA. These License Agreements with National are generally identified in paragraph 11 of the complaint, with the exception that the products licensed from UCCEL were licensed in 1984.

35. In each of the License Agreements with CA's predecessor companies, National was the sole licensee, receiving the right to use the licensed programs for its own use in the regular course of its business. In none of the License Agreements was it granted any authorization to use the licensed programs for the benefit of any company other than itself.

36. In breach of each of the License Agreements with CA's predecessor companies, and in breach of the 1990 License Agreement, Exhibit B, and Supplement Addendum, Exhibit A, National has used and permitted the use of the Licensed Programs for the processing of data for the benefit of third parties. This use of the Licensed Programs for the benefit of third parties includes the use for Lend Lease Trucks, Inc. and Tilden Car Rental, Inc.

37. As a result of these material and ongoing breaches of the License Agreements with CA and its predecessor companies, the 1990 License Agreement, and the Supplement Addendum, CA has been damaged by that amount to be proven at trial, including loss of license fees, loss of access fees, and loss of maintenance fees amounting to millions of dollars. In addition, National has been unjustly enriched by any fees or other compensation received from those third-parties for use of the Licensed Programs for their benefit.

38. Pursuant to the 1990 License Agreement, Exhibit B, such material and ongoing breaches by National gives CA the right to terminate the 1990 License Agreement and Supplement Addendum, Exhibit A, upon which event, in addition to all other rights of CA, National and EDS must cease all use of the software and certify that all copies or partial copies of the Licensed Programs have been returned to CA or destroyed and deleted from any computer libraries or storage devices and are no longer in use by National or EDS.

39. There is a controversy between CA and National regarding the use of the Licensed Programs, and CA

seeks a declaration under 28 U.S.C. § 2201 *et seq.* that National and EDS are in material and ongoing breach of the 1990 License Agreement, Exhibit B, and Supplement Addendum, Exhibit A, and that CA can exercise all rights that arise to it under those agreements upon breach by National and EDS.

Second Counterclaim

40. This counterclaim arises under the United States Copyright Act, Section 101 *et seq.*, of Title 17 of the United States Code, and the Court has jurisdiction over the cause pursuant to Section 1338(a) of Title 28 of the United States Code.

41. CA has authored various computer programs, including products known as CA-NETMAN, CA-ONE, CA-SEVEN, and CA-ELEVEN, hereafter referred to as "the Works".

42. Each version of the Works that is the subject of this counterclaim contains material wholly original with CA and is copyrightable subject matter under the laws of the United States.

43. After creation of each version of the Works that is the subject of this counterclaim, CA complied in all respects with the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.*, including affixation of copyright notice, deposit of copyrighted materials, application for registration, and payment of fees. CA has received from the Register of Copyrights certificates of registration for each version of the Works that is the subject of this counterclaim, identified and dated respectively as follows:

•CA-NETMAN:	Registration TXU 464-866 Date: May 16, 1991
•CA-ONE:	Registration TXU 467-665 Date: May 16, 1991
•CA-SEVEN:	Registration TXU 465-037 Date: May 16, 1991
•CA-ELEVEN:	Registration TXU 465-036 Date: May 16, 1991

A copy of each registration is attached and incorporated by reference.

44. CA is the sole owner of all rights, title, and interest in and to the copyrights and the Works.

45. In February, 1991, CA was told that National would be relocating its computer processing operations to North Carolina and to the facilities of EDS. CA was also advised that National, through EDS, wanted to duplicate Licensed Programs of CA as part of the process of the migration to North Carolina. With a duplicate copy National, through EDS, would use Licensed Programs in both Minnesota and North Carolina.

46. The Supplement Addendum, Exhibit A, permits the migration from Minnesota to North Carolina but only upon the cessation of usage in Minnesota.

47. In March, 1991, CA refused to give consent to the making of a duplicate copy of Licensed Programs, although EDS was informed that if it wished to run a second copy of the Licensed Programs it could do so upon entering into a licensing agreement for that limited and dedicated purpose and making the required payment for that license.

48. By letter dated May 7, 1991, National, through its CIO/Executive Vice President John D. Livingston, stated that "National has suspended these efforts" to migrate to North Carolina.

49. Neither National nor EDS entered into a licensing agreement with CA to authorize making a duplicate copy of Licensed Programs or for the simultaneous usage of the Works in Minnesota and North Carolina.

50. National, through EDS, duplicated without authorization Licensed Programs, enabling them to run those programs in both Minnesota and North Carolina.

51. National has willfully infringed either directly or through EDS the copyrights of CA in the Works.

52. As a result of the willful infringement, CA has sustained those damages to be proven at trial, including loss of parallel processing fees. In the alternative (as will be elected at trial), CA is entitled to statutory damages pursuant to 17 U.S.C. §504(c) for each act of infringement for each registered Work infringed.

WHEREFORE, Computer Associates International, Inc. requests judgment as follows:

1. Dismissal of the complaint with prejudice and the award of its costs and disbursements;

2. Award of money damages against National Car Rental System, Inc. pursuant to the First Counterclaim in that amount proven at trial, which is in excess of $50,000, for material and ongoing breaches of the previous license agreements, the 1990 License Agreement, and the Supplement Addendum in the use of Licensed Programs for the

benefit of companies or entities other than National, together with its costs and disbursements;

3. Declaration pursuant to the First Counterclaim that the breach of the 1990 License Agreement and Supplement Addendum in the use of Licensed Programs for the benefit of companies or entitles [sic] other than National entitles CA to terminate that Agreement and enforce all rights flowing from that termination, including an Order for the return to CA or certification of cessation of usage and destruction and deletion of all copies and partial copies by National of the Licensed Programs, together with its costs and disbursements;

4. Award of money damages against National Car Rental System, Inc. pursuant to the Second Counterclaim in that amount proven at trial for copyright infringement, or, in the alternative (as will be elected by CA at trial), statutory damages as are provided by Section 504(c) of Title 17 of the United States Code, in a sum of not more than $20,000 for each act of infringement for each registered Work infringed as the Court considers just;

5. Determination by the Court that the copyright infringement has been committed willfully and exercise of discretion to increase the award of statutory damages against National to a sum of not more than $100,000 for each act of infringement for each registered Work infringed as provided by Section 504(c)(2) of Title 17 of the United States Code;

6. An Order to require National to deliver up to be impounded during the pendency of this action all copies

in its possession or under its control infringing copyrights of CA, and to deliver up for destruction all infringing copies and all matter for making such infringing copies.

7. Award pursuant to the Second Counterclaim of reasonable attorneys fees and costs pursuant to Section 505 of Title 17 of the United States Code for each registered Work infringed; and

8. Such other and further relief as may be just and proper.

JURY TRIAL DEMANDED

Dated: September 11, 1991.

POPHAM, HAIK, SCHNOBRICH
& KAUFMAN, LTD.
By /s/ Allen W. Hinderaker
Allen W. Hinderaker
Reg. No. 45287
Bruce H. Little Reg. No. 7421X
3300 Piper Jaffray Tower
222 Ninth Street South
Minneapolis, Minnesota 55402
(612) 333-4800

ATTORNEYS FOR
DEFENDANT.

EXHIBIT A

FACILITY MANAGEMENT SUPPLEMENT ADDENDUM
TO
LICENSE AGREEMENT AND ORDER FORM
BETWEEN
COMPUTER ASSOCIATES INTERNATIONAL, INC.,
NATIONAL CAR RENTAL SYSTEMS
AND
ELECTRONIC DATA SYSTEMS CORPORATION

THIS ADDENDUM, dated as of the effective date listed on Exhibit A (the "Effective Date") is by and among COMPUTER ASSOCIATES INTERNATIONAL, INC. ("CA"), ELECTRONIC DATA SYSTEMS CORPORATION ("FM") and *NATIONAL CAR RENTAL SYSTEMS* ("Licensee").

WITNESSETH:

WHEREAS, Licensee is a current party to that certain License Agreement Number and Order Form listed on Exhibit A and attached hereto (hereinafter collectively, the "License Agreement") between CA and Licensee and incorporated herein by reference, and

WHEREAS, Licensee and FM have entered into a data processing services agreement whereby FM will process data for Licensee, and

WHEREAS, FM will have a need to access and utilize the Licensed Program(s) licensed pursuant to the License Agreement, and

WHEREAS, CA is willing to amend the License Agreement to allow FM to access and utilize the Licensed

Program(s) as set forth in the License Agreement and in this Addendum.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration received, CA, Licensee, and FM hereby agree as follows:

1. Terms. Unless otherwise indicated or required by the context herein, capitalized terms used herein shall have the same meaning specified in the License Agreement.

2. Use of Licensed Program(s). CA acknowledges that the Licensed Program(s) shall be installed on the CPU(s) and at the computer processing installation of FM located at the installation address listed on Exhibit A attached hereto (the "Installation"). Any transfer of the Licensed Program(s) from a Licensee location to the Installation shall be at no charge to Licensee or FM. FM and Licensee agree that FM will use the Licensed Program(s) solely for the benefit and use of Licensee and such use will be subject to the rights, obligations and benefits in all respects of the terms and conditions of the License Agreement. Unless authorized in writing by CA, FM agrees to use the Licensed Program(s) (i) subject in all respects to the terms and conditions of the License Agreement, (ii) only on the designated CPU(s) identified herein or in the License Agreement, and (iii) solely, on a dedicated basis, to process data of Licensee and in no event for the processing of data of FM or of any third party other than Licensee. CA agrees to provide, and Licensee agrees to continuously subscribe for, support services (including maintenance) to Licensee and/or FM at a quality and level consistent with past practice and service to Licensee at rates and subject to the terms and conditions provided for in the License

Agreement unless otherwise agreed in one or more future amendments to this Addendum.

3. Transfer of the Licensed Program(s). Should FM cease data processing operations on behalf of Licensee at the Installation, and desire to relocate those data processing operations and the Licensed Program(s) in support of the data processing agreement between FM and Licensee, the Licensed Program(s) can be transferred to (i) a new location (which for purposes of this Addendum will become the "Installation") to be operated by FM, where FM shall be performing processing in support of the data processing agreement between FM and Licensee, or (ii) to an equivalent CPU at the original Installation or at the new Installation, without a relocation or other charge to Licensee or FM. Upon completion of any transfer FM will confirm to CA in writing that the Licensed Program(s) is no longer running at the old Installation, and agrees to return to CA or destroy all Licensed Program(s) materials not so transferred in accordance with the License Agreement and as if the License Agreement had terminated.

4. Expiration or Termination of FM/Licensee Relationship. Should the agreement between FM and Licensee expire, terminate or should Licensee cease data processing operations at the Installation and Licensee desires to relocate its computer installation and the Licensed Program(s) from the Installation, such transfer shall be the equivalent of a closing by Licensee of its data center at the Installation, and the Licensed Program(s) can be transferred to a new location to be operated solely by Licensee or, with CA's prior written consent, its third party designee (the "Designee") for its internal operations on the designated CPU, or on an equivalent CPU of Licensee. In the event of any such transfer, CA agrees that FM or Licensee may

make and use one additional copy of the Licensed Program(s) for testing purposes only throughout a reasonable period of transition not to exceed six months, provided, however that upon completion of any transfer to a new location, FM or Licensee, as appropriate, will return to CA or destroy the additional copy, if any. Licensee or any Designee may also be required to pay CA's supplemental charges then in effect. Any Designee hereunder shall be required to execute a copy of this form Addendum or a similar document containing the material terms and conditions hereof. Licensee must, however, give prior written notice to CA of any transfer hereunder identifying the new location. Upon completion of any transfer, FM or Licensee, as appropriate, will confirm to CA in writing that the Licensed Program(s) is no longer running at the old Installation, and agrees to return to CA or destroy all Licensed Program(s) materials not so transferred in accordance with the License Agreement as if the License Agreement had terminated.

5. Upgrade Fees. If the Licensed Program(s) subsequently are to be transferred to a new non-equivalent CPU which CPU contains increased processing power or capacity, an upgrade fee may be payable to CA in accordance with CA's standard published pricing in effect at the time of any such transfer.

6. Obligations of FM. If the data processing agreement between Licensee and FM should terminate, FM will return to CA, or destroy, all Licensed Program(s) materials in its possession which have not been provided to Licensee, in accordance with the termination provisions of the License Agreement and the license between Licensee and CA to use the Licensed Program(s) will remain in full force and effect.

7. Entire Agreement. Except as expressly provided herein or to the extent that they are inconsistent with

the provisions of this Addendum, the provisions of the License Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, CA, Licensee and FM have caused this Addendum to be signed and delivered by their duly authorized officers and representatives, all as of the dates first set forth above.

COMPUTER ASSOCIATES INTERNATIONAL, INC.

By: /s/ George C. Tatter
Printed Name: GEORGE C. TATTER
Title: VICE PRESIDENT

ELECTRONIC DATA SYSTEMS CORPORATION

By: /s/ Andrew K. Reid
Printed Name: ANDREW K. REID
Title: MANAGER, CONTRACTING SERVICES

LICENSEE:

NATIONAL CAR RENTAL SYSTEMS

By: /s/ Pamela Jo Peters
Printed Name: _____
Title: VP Administration

EXHIBIT A

EFFECTIVE DATE, LICENSEE, AGREEMENT NUMBER AND INSTALLATION

Effective Date: December 31, 1990
Licensee Address: 7700 France Ave South, Minneapolis, MN 55435
License Agreement Number: ___
Initial CPU(s) designated:
CPU Manufacturer: IBM
CPU Model No.: 3090-300, 3090-200
CPU Serial No.: 71085, 70238 Respectively
Operating System: MVS
Installation Address: 7700 France Avenue South, Minneapolis, MN 55435

EXHIBIT B

COMPUTER ASSOCIATES
Software superior by design.

LICENSE AGREEMENT

Computer Associates International, Inc.
711 Stewart Avenue
Garden City, NY 11530-4787
516-227-3300
FAX 516-229-4092

This License Agreement between National Car Rental System, Inc. ("Licensee") located at 7700 France Ave. S., Minn. MN 55425 and Computer Associates International, Inc. ("CA") covers Program Products to be licensed by

Licensee pursuant to Order Forms which may be submitted and accepted from time to time.

When CA accepts an Order Form, Licensee will have, subject to the terms and conditions of this Agreement, a nontransferable and nonexclusive license to use the Program Product(s), optional features, if any, and related materials (collectively the "Licensed Program") described in the Order Form(s) referencing this Agreement. This Agreement applies to all program code, documentation, training materials, and enhancements embodying or related to the Licensed Program and any subsequent versions or releases of the Licensed Program which may be delivered to Licensee and the definition of Licensed Program includes all such code, documentation materials and enhancements.

USE OF LICENSED PROGRAM

This Agreement authorizes Licensee to use the Licensed Program(s), covered by Order Form(s) accepted by CA, only with the Designated CPU(s) of Licensee at the installation site of Licensee identified on the Order Form and only for the internal operations of Licensee and for the processing of its own data.

TITLE, CONFIDENTIALITY AND RESTRICTIONS

Title to the Licensed Program remains with CA, and the Licensed Program is a trade secret and the proprietary property of CA. Licensee and its employees will keep the Licensed Program strictly confidential, and Licensee will not disclose or otherwise distribute the

Licensed Program to anyone other than Licensee's authorized employees. Licensee will not remove or destroy any proprietary markings of CA. Licensee will not permit anyone except its authorized employees to have access to the Licensed Program. Except for archive purposes, Licensee will not make or permit others to make copies of or reproduce any part of the Licensed Program in any form without the prior written consent of CA. In no event will Licensee decompile, disassemble or otherwise reverse engineer any Licensed Program.

If Licensee moves its computer installation, the Licensed Program can be transferred to Licensee's new location for use on the Designated CPU(s) without a relocation charge to Licensee, but Licensee must give prior written notice to CA of such move and confirm to CA that the old computer installation has been closed. If Licensee desires, subject to obtaining CA's prior written consent, to operate the Licensed Program subsequent to a change of control of Licensee or other than with the Designated CPU(s) or other than at Licensee's installation site identified on the Order Form, Licensee will be required to pay to CA the then applicable upgrade supplemental, transfer and replacement fees of CA. In no event can the Licensed Program be transferred outside of country boundaries.

If this Agreement should terminate for any reason, Licensee shall certify in writing to CA that all copies or partial copies of the Licensed Program have been either returned to CA or otherwise destroyed and deleted from any computer libraries or storage devices and are no longer in use by Licensee.

ENTIRE AGREEMENT AND MODIFICATIONS

This Agreement, including the reverse side of this Agreement, the Order Form(s) and any other exhibits attached to this Agreement represents the entire agreement between CA and Licensee with respect to the Licensed Program, and CA and Licensee agree that all other agreements, proposals, purchase orders, representations and other understandings concerning the Licensed Program, whether oral or written, between the parties are superseded in their entirety by this Agreement. No alterations or modifications of this Agreement will be valid unless made in writing and signed by the parties. No attachment, supplement or exhibit to this Agreement shall be valid unless initialed by an authorized signatory of CA.

(See Reverse Side For Additional Important Provisions)

COMPUTER ASSOCIATES INTERNATIONAL, INC.

By: /s/ George C. Tatter
(Authorized Signature)
GEORGE C. TATTER – VICE PRESIDENT
Name of Person Signing
March 26, 1991
Date
270774
License Agreement No.

LICENSEE

By: /s/ Illegible
(Authorized Signature)
VP Admin
Type or Print Name of Person Signing

Title
January 23, 91
Date

LIMITED WARRANTY

CA warrants that it can grant the license described in this Agreement and the Order Form(s) and CA will defend or, at its option, settle any action at law against Licensee based upon a claim that Licensee's use of the Licensed Program in accordance with this Agreement infringes any patent, copyright or other intellectual property right of any third party. CA also represents that the Licensed Program will operate according to the specifications published by CA for the Licensed Program. If it is determined that the Licensed Program does not operate according to such specifications, CA's only responsibility will be to use its best efforts, consistent with industry standards, to cure the defect.

Any warranties made by CA (other than that of non-infringement) will extend and be in effect only for the period that Licensee is entitled to use the Licensed Program and for which Licensee shall have paid the Usage and Maintenance Fee, if applicable. With respect to hardware equipment supplied by CA, CA will, upon request,

assign to Licensee any warranties which may be made by the original manufacturer of such hardware equipment.

In the event that Licensee makes any changes or modifications to the Licensed Program, Licensee agrees that such changes and modifications shall be the property of CA, unless CA shall have given its prior written consent to the contrary. Furthermore, any such changes or modifications made by Licensee to a Licensed Program will mean that the foregoing limited warranty of CA with respect to such Licensed Program shall no longer apply, and CA shall have the right to charge Licensee for additional support services at CA's then prevailing service rate, but CA shall have no obligation to provide such services.

WARRANTY AND LIABILITY LIMITATIONS

EXCEPT AS SET FORTH ABOVE, NO OTHER WARRANTIES, WHETHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ARE MADE BY CA AND CA MAKES NO WARRANTIES WITH RESPECT TO ANY HARDWARE EQUIPMENT WHICH CA MAY SUPPLY TOGETHER WITH THE LICENSED PROGRAM OR FOR THE IMPLEMENTATION THEREOF. IN NO EVENT WILL CA BE LIABLE TO LICENSEE OR ANY OTHER PARTY FOR ANY LOSS, INCLUDING TIME, MONEY, GOODWILL AND CONSEQUENTIAL DAMAGES, WHICH MAY ARISE FROM THE USE, OPERATION OR MODIFICATION OF THE LICENSED PROGRAM.

DISASTER RECOVERY

In the event that Licensee certifies in writing to CA that it has a bona fide disaster recovery plan with respect to the computer software programs used in its operations, Licensee may make one copy of the Licensed Program for archival purposes and use such archival copy on a CPU other than the Designated CPU or at an installation site other than that identified on the Order Form, such other CPU or installation site to be owned or controlled by Licensee. The use of such archival copy shall be limited (a) for the purpose of conducting limited testing of the disaster recovery plan's procedures and effectiveness (which testing shall not exceed one week in any three month period) and (b) during any period subsequent to the occurrence of an actual disaster during which the Licensee cannot operate the Licensed Program on the Designated CPU or at the installation site identified on the Order Form. Licensee agrees to furnish such further documentation with respect to its disaster recovery plan and procedures as CA may request from time to time.

ASSIGNMENT

Licensee may not assign this Agreement, the use of any Licensed Program or its rights and obligations under this Agreement without the prior written consent of CA. CA, however, may assign this Agreement to any third party, provided that such party assumes the obligations of CA under this Agreement. CA may also assign its right to payment under this Agreement or grant a security interest in this Agreement or such payment right to any

third party without requiring that such third party be liable for the obligations of CA under this Agreement.

ESCROW OF SOURCE CODE

CA has deposited a copy of the source code of the Licensed Program with Mendelsohn, Kary, Bell & Natoli, 666 Fifth Avenue, New York, N.Y. 10103. Such source code will be updated with each new release of the Licensed Program which will also be deposited with the escrow agent. Such copies of the source code will be held in escrow and in the event of a final adjudication of CA as bankrupt, Licensee will, upon payment of the duplication cost and other handling charges of the escrow agent, be entitled to obtain a copy of such source code from the escrow agent. Licensee will, however, only use a such copy of the source code internally to support the Licensed Program. The escrow agent's only responsibility will be to use its good faith efforts to cause a copy of the source code, in the form as delivered by CA, to be delivered to Licensee at the appropriate time.

TAXES AND DUTIES

The amounts set forth on any Order Form are exclusive of any tariffs, duties or taxes imposed or levied by any government or governmental agency including, without limitation, federal, state and local sales, use, value added and personal property taxes, and Licensee agrees to pay any such tariffs, duties or taxes (other than franchise and income taxes for which CA is responsible) upon presentation of invoices by CA. Any claimed exemption

from such tariffs, duties or taxes must be supported by proper documentary evidence delivered to CA.

BREACH AND TERMINATION

If Licensee breaches any term of this Agreement or any Order Form or fails to pay when due any valid invoice rendered by CA, or if the Licensee becomes insolvent or if bankruptcy or receivership proceedings are initiated by or against Licensee, CA shall have the right to terminate this Agreement immediately and, in addition to all other rights of CA, all amounts which would have become due and payable under this Agreement and any Order Form will immediately become due and payable to CA. Any invoice which is unpaid by Licensee when due shall be subject to an interest charge of 2% per month or part thereof plus such late payment charge as CA may reasonably require to cover its additional costs of administration and collection.

EXHIBIT C

COMPUTER ASSOCIATES

ORDER FORM

Software superior design.

Computer Associates International, Inc.
711 Stewart Avenue
Garden City, NY 11530-4787
(515) 227-3300
FAX (515) 229-4092

Licensee Name And Address: National Car Rental System, Inc. 7700 France Ave. South Minneapolis, MN 55435

License Agreement No.: 270774

If Tax Exempt, Number _____

Installation/Service Site Location: (If different from above) EDS ABOVE

Installation/Service Site I.D. No.: _____

Licensee Technical Contact Person:
_____ Phone: _____

Licensee Billing Address: (If different from above) EDS 7700 FRANCE AVENUE SOUTH MINNEAPOLIS, MN 55435

Licensee Billing Contact Person: (If different from above) DAVE EITUR Phone: _____

Licensee Shipping Address:
(If different from above) _____

Licensee Shipping Contact Person: _____ Phone: ____

Installation No. _____ for password protected products.

Licensee P.O. No.: (If required) _____

CA Supplement No.	
illegible	Product(s), Services
illegible	or Materials
	As Per Schedule "A"

Designated CPU(s) if Licensed Program is ordered

Manufacturer	Model	Operating System	Serial No.
		Illegible	
		Illegible	

Effective Date of this Order: JANUARY 1, 1991

[ ] AO: Five equal payments in the amount of $____ per year

[ ] A8: Three equal payments in the amount of $____ per year

[ ] G1: A single payment in the amount of $____

[ ] G2: Thirty-six equal payments in the amount of $____ per month

[ ] G3: A single payment in the amount of $____

[ ] G4: A single payment in the amount of $____

[ ] G5: A single payment in the amount of $____

[ ] G6: Three equal payments in the amount of $____ per year

[ ] G7: Thirty-six equal payments in the amount of $____ per month

[ ] If applicable, change to Pay Option specified above from Pay Option ___ for Product _____

[x] G0: A single payment in the amount of $80,500 for:

[ ] Services (attach description)

[ ] Upgrade to CPU designated above
from CPU _____
Serial No.

[ ] Maintenance Reinstatement through _____
Illegible

[ ] Transfer Fee (attach description)

[x] Other Supplemental Fee (attach description)

(See Reverse Side for a detailed description of each Pay Option and for additional important provisions)

Computer Associates International, Inc.
By: /s/ George C. Tatter
(Authorized Signature)

GEORGE C. TATTER - VICE PRESIDENT
Name of Person Signing

MARCH 26, 1991
Date

Licensee

By: /s/ Pamela Jo Peters
(Authorized Signature)

VP of admin
Type or Print Name and Title of Person Signing

January 23, 91
Date

Pay [Illegible] Descriptions

AO: Five equal annual payments inclusive of usage and maintenance for the five-year period. Thereafter, continued usage of the Licensed Program and maintenance will be subject to the same UMF as is applicable under option G1 below.

A8: Three equal annual payments inclusive of usage and maintenance for the three-year period. Thereafter, continued usage of the Licensed Program and maintenance will be subject to the same UMF as is applicable under option G1 below.

G1: A one-time fee ("OTF") inclusive of usage and maintenance for a one-year period. Thereafter, continued usage of the Licensed Program and maintenance will be subject to an annual usage and maintenance fee ("UMF") equal to the then prevailing OTF for the Licensed Program multiplied by the then prevailing UMF rate for the Licensed Program.

G2: Thirty-six equal monthly payments inclusive of usage and maintenance for the three-year period. Thereafter, continued usage of the Licensed Program and maintenance will be subject to the same UMF as is applicable under option G1 above.

G3: A single payment for a three-year term license, inclusive of usage and maintenance for the three-year period. Thereafter, the license will be renewed on the same terms

and conditions, but subject to the then prevailing G3 license fee.

G4: A single payment for a two-year term license, inclusive of usage and maintenance for the two-year period. Thereafter, the license will be renewed on the same terms and conditions, but subject to the then prevailing G4 license fee.

G5: A single payment for a one-year term license, inclusive of usage and maintenance for the one-year period. Thereafter, the license will be renewed on the same terms and conditions, but subject to the then prevailing G5 license fee.

G6: Three equal annual payments for a three-year term license, inclusive of usage and maintenance for the three-year period. Thereafter, the license will be renewed on the same terms and conditions, but subject to the then prevailing G6 license fee.

G7: Thirty-six equal monthly payments for a three-year term license, inclusive of usage and maintenance for the three-year period. Thereafter, the license will be renewed on the same terms and conditions, but subject to the then prevailing G7 license fee.

G8: A single payment for the limited purpose(s) set forth on the face of this Order Form without effecting any change in any existing license except as specifically set forth.

RENEWALS

All renewals shall be automatic unless either CA or Licensee shall, within thirty days prior to the expiration

of the license period or any renewal period, give written notice to the other party of its intention not to renew. If the applicable UMF shall be discontinued at any time, reinstatement shall be subject to a reinstatement charge equal to 150% of the then prevailing UMF multiplied by the number of years and part thereof during which usage and maintenance of the Licensed Program shall have been discontinued.

SCHEDULE OF TERMS

License fees, OTFs and UMFs are per CPU, are applicable only to Designated CPU(s) and licensed installation sites of Licensee, and use of the Licensed Program is restricted to the internal operations of Licensee and for the processing of its own data, and any proposed change in any of the foregoing, including a chance of control of the Licensee or Licensee's business, shall be subject to CA's prior written consent and payment of all applicable charges. Licensee shall furnish to CA such documentation and access to its facilities as CA may request from time to time to verify compliance with the provisions hereof. All fees and charges are payable in advance upon receipt of invoice.

UPGRADE

The existing Designated CPU may be upgraded to a higher group at any time during the term of the Order upon prior written notice to CA. The expiration date of the term of the Order or the then current usage and maintenance period for the existing Designated CPU shall not change, and it shall apply to the upgraded CPU. All applicable upgrade fees and adjustments to the

license fees and applicable UMFs for an upgraded CPU shall be determined in accordance with CA's policy and prices prevailing at the time of the upgrade.

ADDITIONAL CPU(s)

Additional CPU(s) at the same installation site may be licensed to use the Licensed Program. In order to add one or more CPU(s), one copy of the Licensed Program at the installation site must either have an existing license to run on a CPU in the highest CPU group at the installation site, or be upgraded to a CPU in that highest CPU group in accordance with the "Upgrade" policy of CA. The license for additional CPU(s) may be an Option G1, G2, AO or A8 only if the license for the Licensed Program in the highest CPU group shall be an Option G1, G2, AO or A8. Provided that the first CPU has been upgraded to or is licensed for use in the highest CPU group at the installation site, the license fee, and any subsequent UMF, for each additional CPU at the same installation site shall be the then prevailing license fee or UMF, as the case may be, applicable to the additional CPU. In all cases, such additional CPU license fee or UMF shall only apply during such times as the Order and UMF for the Licensed Program in the highest CPU group shall be current and in effect.

VSE TO MVS CONVERSION CREDIT

If Licensee is already licensed to use the VSE version of a Licensed Program and wishes to terminate usage of such VSE version of the Licensed Program and convert to the MVS version of that Licensed Program, Licensee shall be entitled to a credit equal to 100% of the license fees

paid for the VSE version of the Licensed Program, reduced by a per month usage fee equal to 2% of the prevailing G1 OTF applicable to such VSE version of the Licensed Program. Such credit shall not exceed 50% of the indicated license fee (based upon the payment option selected) for the MVS version of such Licensed Program. This credit is only applicable to a license of the corresponding MVS version of the Licensed Program.

CLIENT SERVICES

All of the terms and conditions contained in the License Agreement referred to in this Order Form shall apply to the Services ordered hereunder. All programs, documentation, reports, techniques, designs and other materials prepared or created by CA shall remain the property of CA and shall not constitute work made for hire under the Copyright Act. The fees set forth in this Order Form for Services, as more fully set forth in the attached description(s), do not include out-of-pocket expenses (such as transportation, lodging, meal per diem, and other expenses) incurred by CA while providing the Services ordered, which expenses will be charged to the Licensee from time to time or upon completion of the ordered Services. If performance of the Services is delayed due to Licensee's failure to provide required computer access or personnel or similar reasons, Licensee shall pay CA's then prevailing daily charge, plus reimbursement of all such out-of-pocket expenses, for each additional day for each person assigned by CA to provide the Services.

REFERENCED LICENSE AGREEMENT

The terms and conditions of the License Agreement or prior Order Form, as the case may be, referenced by this Order Form shall apply to this Order Form. If any provision of the License Agreement or prior Order Form, as the case may be, shall contradict any provision of this Order Form, the provisions of this Order Form shall apply with respect to the Licensed Program(s) described herein. If the License Agreement referred to in this Order Form currently provides for a license of Licensed Program(s) for use on an "installation or site basis," then the same shall be amended, for purposes of the Licensed Program(s) covered by this Order Form, to a license for use on a "per CPU" basis.

NOTICES

All notices, invoices and other communications hereunder shall be delivered to Licensee and CA at their respective addresses set forth in this Order Form unless changed by similar notice.

SCHEDULE "A"

SCHEDULE OF SUPPLEMENTAL FEES

CA License Agreement No.	CA Product Code	CA Product	Supplemental Fee
101426-001	NETMAN00200	CA-NETMAN	$18,200
101428-001	NINER+00200	CA-NINE/R+	7,175
101430-001	ACF2..00200	CA-ACF2	13,335
101431-001	ONE...00200	CA-ONE	9,555
101432-001	SEVEN.00200	CA-SEVEN	24,045
101433-001	ELEVEN00200	CA-ELEVEN	8,190
101434-001	ACF2..00200	CA-ACF2	N/A

CERTIFICATE OF COPYRIGHT REGISTRATION

[Seal]
OFFICIAL SEAL

This certificate, issued under the seal of the Copyright Office in accordance with the provisions of section 410(a) of title 17, United States Code, attests that copyright registration has been made for the work identified below. The information in this certificate has been made a part of the Copyright Office records.

/s/ Illegible
REGISTER OF COPYRIGHTS
United States of America

FORM TX
UNITED STATES
COPYRIGHT OFFICE

REGISTRATION NUMBER	
TXU	464-866
TX	TXU

EFFECTIVE DATE OF REGISTRATION		
5	16	91
Month	Day	Year

DO NOT WRITE ABOVE THIS LINE. IF YOU NEED MORE SPACE, USE A SEPARATE CONTINUATION SHEET.

1

TITLE OF THIS WORK

CA-NETMAN 4.2/MVS/VSE/VM

PREVIOUS OR ALTERNATIVE TITLES

PUBLICATION AS A CONTRIBUTION If this work was published as a contribution to a periodical, serial, or collection, give information about the collective work in which the contribution appeared. **Title of Collective Work.**

If published in a periodical or serial give:
Volume Number Issue Date On Pages

2

NOTE Under the law, the "author" of a "work made for hire" is generally the employer, not the employee (see instructions). For any part of this work that was "made for hire" check "Yes" in the space provided, give the employer (or other person for whom the work was prepared) as "Author" of that part, and leave the space for dates of birth and death blank.

a

NAME OF AUTHOR

Computer Associates International, Inc.

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[x] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of USA
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

Anonymous? [ ] Yes [x] No

Pseudonymous? [ ] Yes [x] No

If the answer to either of these questions is "Yes," see detailed instructions.

NATURE OF AUTHORSHIP Briefly describe nature of the material created by this author in

which copyright is claimed.
Text of Computer Program

b

NAME OF AUTHOR

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[ ] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of _____
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

Anonymous? [ ] Yes [ ] No

Pseudonymous? [ ] Yes [ ] No

If the answer to either of these questions is "Yes," see detailed instructions.

NATURE OF AUTHORSHIP Briefly describe nature of the material created by this author in which copyright is claimed.

c

NAME OF AUTHOR

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[ ] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of _____
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

Anonymous? [ ] Yes [ ] No

Pseudonymous? [ ] Yes [ ] No

If the answer to either of these questions is "Yes," see detailed instructions.

NATURE OF AUTHORSHIP Briefly describe nature of the material created by this author in which copyright is claimed.

3

YEAR IN WHICH CREATION OF THIS WORK WAS COMPLETED This information must be given in all cases.
1989 Year

DATE AND NATION OF FIRST PUBLICATION OF THIS PARTICULAR WORK
Complete this information ONLY if this work has been published.

Month ___ Day ___ Year ___

_____ Nation

4

See instructions before completing this space.

COPYRIGHT CLAIMANT(S) Name and address must be given even if the claimant is the same as the author given in space 2.

Computer Associates International, Inc.
711 Stewart Avenue
Garden City, NY 11530

TRANSFER If the claimant(s) named here in space 4 are different from the author(s) named in space 2, give a brief statement of how the claimant(s) obtained ownership of the copyright.

DO NOT WRITE HERE OFFICE USE ONLY

APPLICATION RECEIVED
MAY 16, 1991

ONE DEPOSIT RECEIVED
MAY 16, 1991

TWO DEPOSITS RECEIVED

REMITTANCE NUMBER AND DATE

MORE ON BACK

- Complete all applicable spaces (numbers 5-11) on the reverse side of this page.
- See detailed instructions.
- Sign the form at line 10.

DO NOT WRITE HERE

FORM TX
FOR COPYRIGHT OFFICE USE ONLY
EXAMINED BY
TXU 464-866 CHECKED BY /s/ Jan
[ ] CORRESPONDENCE
Yes
[ ] DEPOSIT ACCOUNT FUNDS USED

DO NOT WRITE ABOVE THIS LINE. IF YOU NEED MORE SPACE, USE A SEPARATE CONTINUATION SHEET.

5

PREVIOUS REGISTRATION Has registration for this work, or for an earlier version of this work, already been made in the Copyright Office?

[ ] **Yes** [x] **No** If your answer is "Yes," why is another registration being sought? (Check appropriate box).

[ ] This is the first published edition of a work previously registered in unpublished form.

[ ] This is the first application submitted by this author as copyright claimant.

[ ] This is a changed version of the work, as shown by space 6 on this application.

If your answer is "Yes," give:
Previous Registration Number **Year of Registration**

6
See instructions before completing this space.

DERIVATIVE WORK OR COMPILATION Complete both space 6a & 6b for a derivative work; complete only 6b for a compilation.

a. **Preexisting Material** Identify any preexisting work or works that this work is based on or incorporates.

_____

_____

b. **Material Added to This Work** Give a brief, general statement of the material that has been added to this work and in which copyright is claimed.

7

MANUFACTURERS AND LOCATIONS If this is a published work consisting preponderantly of nondramatic literary material in English, the law may require that the copies be manufactured in the United States or Canada for full protection. If so the names of the manufacturers who performed certain processes and the places where these processes were performed must be given. See instructions for details.

Names of Manufacturers

_____

_____

_____

Places of Manufacturers

_____

_____

_____

8

See instructions.

REPRODUCTION FOR USE OF BLIND OR PHYSICALLY HANDICAPPED INDIVIDUALS A signature on this form at space 10, and a check in one of the boxes here

in space 8, constitutes a non-exclusive grant of permission to the Library of Congress to reproduce and distribute solely for the blind and physically handicapped and under the conditions and limitations prescribed by the regulations of the Copyright Office: (1) copies of the work identified in space 1 of this application in Braille (or similar tactile symbols); or (2) phonorecords embodying a fixation of a reading of that work; or (3) both.

a [ ] Copies and Phonorecords

b [ ] Copies Only

c [ ] Phonorecords Only

9

DEPOSIT ACCOUNT If the registration fee is to be charged to a Deposit Account established in the Copyright Office, give name and number of Account.

Name **Account Number**

Weil, Gotshal & Manges DA056324

CORRESPONDENCE Give name and address to which correspondence about this application should be sent. Name/Address/Apt/City/State/Zip

Weil, Gotshal & Manges
767 Fifth Avenue
New York, New York 10153
Robert P. Stefanski
(212) 310-8917

Area Code & Telephone Number – Be sure to give your daytime phone number.

10

CERTIFICATION I, the undersigned, hereby certify that I am the

Check one [ ] author

[ ] other copyright claimant

[ ] owner of exclusive right(s)

[x] authorized agent of Computer Associates International, Inc.
Name of author or other copyright claimant, or owner of exclusive right(s)

of the work identified in this application and that the statements made by me in this application are correct to the best of my knowledge

Typed or printed name and date If this is a published work, this date must be the same as or later than the date of publication given in space 3.

Michael A. McElroy **Date** 2/15/91

☞ **Handwritten signature (X)** /s/ Michael A. McElroy

11

MAIL CERTIFICATE TO
Certificate will be mailed in window envelope

Name

Robert P. Stefanski
Weil, Gotshal & Manges

Number/Street/Apartment Number

767 Fifth Avenue

City/State/ZIP

New York, New York 10153

Have you:
- Completed all necessary spaces
- Signed your application in space 10
- Enclosed check or money order for $10 payable to Register of Copyrights?
- Enclosed your document material with the application and fee?

MAIL TO
Register of Copyrights
Library of Congress
Washington, D.C. 20559

*17 U.S.C. § 506(e): any person who knowingly makes a false representation of a material fact in the application for copyright registration provided for by section 409, or in any written statement filed in connection with the application, shall be fined not more than $2,500.

CERTIFICATE OF COPYRIGHT REGISTRATION

[Seal]
OFFICIAL SEAL

This certificate, issued under the seal of the Copyright Office in accordance with the provisions of section 410(a) of title 17, United States Code, attests that copyright registration has been made for the work identified below. The information in this certificate has been made a part of the Copyright Office records.

/s/ Illegible
REGISTER OF COPYRIGHTS
United States of America

FORM TX
UNITED STATES
COPYRIGHT OFFICE

REGISTRATION NUMBER		
TXU		467-665
TX		TXU
EFFECTIVE DATE OF REGISTRATION		
May	16	1991
Month	Day	Year

DO NOT WRITE ABOVE THIS LINE. IF YOU NEED MORE SPACE, USE A SEPARATE CONTINUATION SHEET.

1

TITLE OF THIS WORK

CA-1 5.0/MVS
PREVIOUS OR ALTERNATIVE TITLES

PUBLICATION AS A CONTRIBUTION If this work was published as a contribution to a periodical, serial, or collection, give information about the collective work in which the contribution appeared. **Title of Collective Work.**

If published in a periodical or serial give:
Volume Number Issue Date On Pages

2

NOTE Under the law, the "author" of a "work made for hire" is generally the employer, not the employee (see instructions). For any part of this work that was "made for hire" check "Yes" in the space provided, give the employer (or other person for whom the work was prepared) as "Author" of that part, and leave the space for dates of birth and death blank.

a

NAME OF AUTHOR

Computer Associates International, Inc.

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[x] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of USA
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

Anonymous? [ ] Yes [x] No

Pseudonymous? [ ] Yes [x] No

If the answer to either of these questions is "Yes," see detailed instructions.

NATURE OF AUTHORSHIP Briefly describe nature of the material created by this author in which copyright is claimed.
Text of Computer Program

b

NAME OF AUTHOR

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[ ] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of _____
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

Anonymous? [ ] Yes [ ] No

Pseudonymous? [ ] Yes [ ] No

If the answer to either of these questions is "Yes," see detailed instructions.

NATURE OF AUTHORSHIP Briefly describe nature of the material created by this author in which copyright is claimed.

c

NAME OF AUTHOR

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[ ] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of _____
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

Anonymous? [ ] Yes [ ] No

Pseudonymous? [ ] Yes [ ] No

If the answer to either of these questions is "Yes," see detailed instructions.

NATURE OF AUTHORSHIP Briefly describe nature of the material created by this author in which copyright is claimed.

3

YEAR IN WHICH CREATION OF THIS WORK WAS COMPLETED This information must be given in all cases.
1990 Year

DATE AND NATION OF FIRST PUBLICATION OF THIS PARTICULAR WORK
Complete this information ONLY if this work has been published.

Month ___ Day ___ Year ___

_____ Nation

4

See instructions before completing this space.

COPYRIGHT CLAIMANT(S) Name and address must be given even if the claimant is the same as the author given in space 2.

Computer Associates International, Inc.
711 Stewart Avenue
Garden City, NY 11530

TRANSFER If the claimant(s) named here in space 4 are different from the author(s) named in space 2, give a brief statement of how the claimant(s) obtained ownership of the copyright.

DO NOT WRITE HERE OFFICE USE ONLY

APPLICATION RECEIVED
MAY 16, 1991

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MAY 16, 1991

TWO DEPOSITS RECEIVED

REMITTANCE NUMBER AND DATE

MORE ON BACK

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- Sign the form at line 10.

DO NOT WRITE HERE

FORM TX
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TXU 467-665 CHECKED BY
[ ] CORRESPONDENCE
Yes

[ ] DEPOSIT ACCOUNT FUNDS USED

DO NOT WRITE ABOVE THIS LINE. IF YOU NEED MORE SPACE, USE A SEPARATE CONTINUATION SHEET.

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[ ] This is the first application submitted by this author as copyright claimant.

[ ] This is a changed version of the work, as shown by space 6 on this application.

If your answer is "yes," give:
Previous Registration Number **Year of Registration**

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See instructions before completing this space.

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_____

b. **Material Added to This Work** Give a brief, general statement of the material that has been added to this work and in which copyright is claimed.

_____

_____

7

MANUFACTURERS AND LOCATIONS If this is a published work consisting preponderantly of nondramatic literary material in English, the law may require that the copies be manufactured in the United States or Canada for full protection. If so the names of the manufacturers who performed certain processes and the places where these processes were performed must be given. See instructions for details.

Names of Manufacturers

_____

_____

_____

Places of Manufacturers

_____

_____

_____

8

See instructions.

REPRODUCTION FOR USE OF BLIND OR PHYSICALLY HANDICAPPED INDIVIDUALS A signature on this form at space 10, and a check in one of the boxes here in space 8, constitutes a non-exclusive grant of permission to the Library of Congress to reproduce and distribute solely for the blind and physically handicapped and under the conditions and limitations prescribed by the regulations of the Copyright Office: (1) copies of the work identified in space 1 of this application in Braille (or similar tactile symbols); or (2) phonorecords embodying a fixation of a reading of that work; or (3) both.

a [ ] Copies and Phonorecords

b [ ] Copies Only

c [ ] Phonorecords Only

9

DEPOSIT ACCOUNT If the registration fee is to be charged to a Deposit Account established in the Copyright Office, give name and number of Account.

Name	**Account Number**
Weil, Gotshal & Manges	DA056324

CORRESPONDENCE Give name and address to which correspondence about this application should be sent. Name/Address/Apt/City/State/Zip

Weil, Gotshal & Manges
767 Fifth Avenue
New York, New York 10153
Robert P. Stefanski
(212) 310-8917

Area Code & Telephone Number – Be sure to give your daytime phone number.

10

CERTIFICATION I, the undersigned, hereby certify that I am the

Check one [ ] author

[ ] other copyright claimant

[ ] owner of exclusive right(s)

[x] authorized agent of Computer Associates International, Inc.
Name of author or other copyright claimant, or owner of exclusive right(s)

of the work identified in this application and that the statements made by me in this application are correct to the best of my knowledge

Typed or printed name and date If this is a published work, this date must be the same as or later than the date of publication given in space 3.

Michael A. McElroy **Date** 2/15/91

☞ **Handwritten signature (X)** /s/ Michael A. McElroy

11

MAIL CERTIFICATE TO
Certificate will be mailed in window envelope

Name

Robert P. Stefanski
Weil, Gotshal & Manges

Number/Street/Apartment Number

767 Fifth Avenue

City/State/ZIP

New York, New York 10153

Have you:
- Completed all necessary spaces
- Signed your application in space 10
- Enclosed check or money order for $10 payable to Register of Copyrights?
- Enclosed your document material with the application and fee?

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Library of Congress
Washington, D.C. 20559

*17 U.S.C. § 506(e): any person who knowingly makes a false representation of a material fact in the application for copyright registration provided for by section 409, or in any written statement filed in connection with the application, shall be fined not more than $2,500.

CERTIFICATE OF COPYRIGHT REGISTRATION

[Seal]
OFFICIAL SEAL

This certificate, issued under the seal of the Copyright Office in accordance with the provisions of section 410(a) of title 17, United States Code, attests that copyright registration has been made for the work identified below. The information in this certificate has been made a part of the Copyright Office records.

/s/ Illegible
REGISTER OF
COPYRIGHTS
United States of America

FORM TX
UNITED STATES
COPYRIGHT OFFICE

REGISTRATION NUMBER	
TXU	465-037
TX	TXU

EFFECTIVE DATE OF REGISTRATION		
May	16	1991
Month	Day	Year

DO NOT WRITE ABOVE THIS LINE. IF YOU NEED MORE SPACE, USE A SEPARATE CONTINUATION SHEET.

1

TITLE OF THIS WORK

CA-7 3.0/MVS

PREVIOUS OR ALTERNATIVE TITLES

PUBLICATION AS A CONTRIBUTION If this work was published as a contribution to a periodical, serial, or collection, give information about the collective work in which the contribution appeared. **Title of Collective Work.**

If published in a periodical or serial give:
Volume Number Issue Date On Pages

2

NOTE Under the law, the "author" of a "work made for hire" is generally the employer, not the employee (see instructions). For any part of this work that was "made for hire" check "Yes" in the space provided, give the employer (or other person for whom the work was prepared) as "Author" of that part, and leave the space for dates of birth and death blank.

a

NAME OF AUTHOR

Computer Associates International, Inc.

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[x] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of U.S.A.
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

Anonymous? [ ] Yes [x] No

Pseudonymous? [ ] Yes [x] No

If the answer to either of these questions is "Yes," see detailed instructions.

NATURE OF AUTHORSHIP Briefly describe nature of the material created by this author in which copyright is claimed.
Text of Computer Program

b

NAME OF AUTHOR

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[ ] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of _____
OR)
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c

NAME OF AUTHOR

DATES OF BIRTH AND DEATH
Year Born Year Died

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[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
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1991 Year

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_____ Nation

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711 Stewart Avenue
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ONE DEPOSIT RECEIVED
MAY 10, 1991

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REMITTANCE NUMBER AND DATE

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DO NOT WRITE HERE

FORM TX
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EXAMINED BY
TXU 465-037 CHECKED BY /s/ Jan
[ ] CORRESPONDENCE
Yes

[ ] DEPOSIT ACCOUNT FUNDS USED

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Places of Manufacturers

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Robert P. Stefanski

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Area Code & Telephone Number – Be sure to give your daytime phone number.

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[ ] other copyright claimant
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Michael A. McElroy **Date** 2/15/91

☞ **Handwritten signature (X)** /s/ Michael A. McElroy

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Number/Street/Apartment Number

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/s/ Illegible
REGISTER OF COPYRIGHTS
United States of America

FORM TX
UNITED STATES
COPYRIGHT OFFICE

REGISTRATION NUMBER

TXU	465-036
TX	TXU

EFFECTIVE DATE OF REGISTRATION

May	16	1991
Month	Day	Year

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CA-11 2.0/MVS
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a

NAME OF AUTHOR

Computer Associates International, Inc.

DATES OF BIRTH AND DEATH
Year Born Year Died

Was this contribution to the work a "work made for hire"?
[x] Yes
[ ] No

AUTHOR'S NATIONALITY OR DOMICILE
Name of Country

) Citizen of USA
OR)
) Domiciled in _____

WAS THIS AUTHOR'S CONTRIBUTION TO THE WORK

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Places of Manufacturers

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Robert P. Stefanski
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Area Code & Telephone Number – Be sure to give your daytime phone number.

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[ ] other copyright claimant

[ ] owner of exclusive right(s)

[x] authorized agent of Computer Associates International, Inc.
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of the work identified in this application and that the statements made by me in this application are correct to the best of my knowledge

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Michael A. McElroy **Date** 11/12/90

☞ **Handwritten signature (X)** /s/ Michael A. McElroy

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Name

Robert P. Stefanski
Weil, Gotshal & Manges

Number/Street/Apartment Number

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City/State/ZIP

New York, New York 10153

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UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
THIRD DIVISION

NATIONAL CAR RENTAL SYSTEM, INC., Plaintiff, v. COMPUTER ASSOCIATES INTERNATIONAL, INC., Defendant.	DOCKET NO. Civ. 3-91-321 Civil Action ANSWER TO COUNTERCLAIM, AFFIRMATIVE DEFENSES AND JURY DEMAND

National Car Rental System, Inc. ("National"), by way of answer to the counterclaim states:

30.[1] National is without sufficient information to form a belief as to the truth of the allegations contained in paragraph 30 of the counterclaim.

31. National denies the allegations contained in paragraph 31 of the counterclaim.

32. National denies the allegations contained in paragraph 32 of the counterclaim.

33. National denies the allegations contained in paragraph 33 of the counterclaim.

---

[1] Defendant's counterclaim starts on paragraph No. 30.

34. National admits that Schedule A of the Order Form identifies the licensed software licensed from Computer Associates International, Inc. ("CA"). National admits that it has been a licensee of these software products for many years under various license agreements with CA and CA's predecessor companies, and admits that the license agreements are identified in paragraph 11 of the Complaint except for the software licensed from UCCEL which should indicate where licenses on November 28, 1984, and that all the software is subject to the Supplement Addendum, but denies the remaining allegations contained in paragraph 34 of the counterclaim.

35. National admits that it had the right to use the licensed software in the regular course of its business, but denies the remaining allegations contained in paragraph 35 of the counterclaim.

36. National denies the allegations contained in paragraph 36 of the counterclaim.

37. National denies the allegations contained in paragraph 37 of the counterclaim.

38. National denies the allegations contained in paragraph 37 of the counterclaim.

39. National admits that there is a controversy between it and CA, but denies the remaining allegations contained in paragraph 39 of the counterclaim.

WHEREFORE National demands judgment dismissing the counterclaim together with costs of suit and reasonable attorneys fees.

40. National is without sufficient information to form a belief as to the truth of the allegations contained in paragraph 40 of the counterclaim.

41. National is without sufficient information to form a belief as to the truth of the allegations contained in paragraph 41 of the counterclaim.

42. National is without sufficient information to form a belief as to the truth of the allegations contained in paragraph 42 of the counterclaim.

43. National is without sufficient information to form a belief as to the trust of the allegations contained in paragraph 43 of the counterclaim.

44. National is without sufficient information to form a belief as to the trust of the allegations contained in paragraph 44 of the counterclaim.

45. National admits that it advised CA that it would be relocating its computer processing operations to North Carolina to the facilities of Electronic Data Systems Corporation ("EDS") and National admits that it wanted to duplicate certain of the licensed software as part of their process of migration to EDS' facility in North Carolina, but National denies the remaining allegations contained in paragraph 45.

46. National denies the allegations contained in paragraph 46 of the counterclaim.

47. National denies the allegations contained in paragraph 47 of the counterclaim.

48. National admits that John D. Livingston, CEO/ Executive Vice President of National wrote a letter to CA

and relies upon the terms therein, but denies the allegations contained in paragraph 48 of the counterclaim.

49. National denies the allegations contained in paragraph 49 of the counterclaim.

50. National denies the allegations contained in paragraph 50 of the counterclaim.

51. National denies the allegations contained in paragraph 51 of the counterclaim.

52. National denies the allegations contained in paragraph 52 of the counterclaim.

WHEREFORE National demands judgment dismissing the counterclaim together with costs of suit and reasonable attorneys fees.

FIRST AFFIRMATIVE DEFENSE

Defendant's counterclaims fail to state a claim upon which relief can be granted.

SECOND AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred by the applicable statutes of limitations.

THIRD AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred for its failure to comply with the Federal Copyright statutes and rules and regulations promulgated thereto.

FOURTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred by the Doctrine of Equitable Estoppel.

FIFTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred by the Doctrine of Judicial Estoppel.

SIXTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred because defendant unnecessarily multiplied judicial proceedings.

SEVENTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred by defendant's acts of waiver.

EIGHTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred due to an accord and a satisfaction.

NINTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred by the Doctrine of Laches.

TENTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are barred or diminished for its failure to act in good faith.

ELEVENTH AFFIRMATIVE DEFENSE

Defendant's counterclaims are preempted by Federal Copyright law.

JURY DEMAND

Plaintiff hereby demands a trial by jury on all of the issues contained herein.

BRIGGS AND MORGAN

October 4, 1991

BY: /s/ Scott G. Knudson
Sally A. Scoggin (#98358)
Scott G. Knudson
(#141987)
2200 First National Bank Bldg.
St. Paul, MN 55101
(612) 291-1212
Attorneys for Plaintiff

BUDD LARNER GROSS
ROSENBAUM GREENBERG &
SADE, P.C.
Peter J. Frazza
Leonard T. Nuara

150 John F. Kennedy Parkway,
CN1000
Short Hills, New Jersey 07078-0999
(201) 379-4800

CERTIFICATE OF SERVICE

The undersigned counsel for plaintiff National Car Rental System hereby certifies that on October 4, 1991, he served by first class mail the attached ANSWER TO COUNTERCLAIM, AFFIRMATIVE DEFENSES AND

JURY DEMAND on Allan W. Hinderaker and Popham, Haik, Schnobrich & Kaufman, Ltd., Counsel for Defendant Computer Associates, at 3300 Piper Jaffray Tower, 222 Ninth Street South, Minneapolis, Minnesota 55402.

/s/ Scott G. Knudson
Scott G. Knudson

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Congress's authority to legislate with respect to copyrights is provided by Article I, Section 8, of the Constitution, which states:

> The Congress shall have the Power . . .
>
> * * *
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

U.S. CONST. art. I § 8, cl. 8.

The following sections of the Copyright Act, 17 U.S.C. § 101 et seq., are relevant to this case:

§ 101. Definitions

Except as otherwise provided in this title, as used in this title, the following terms and their variant forms mean the following:

* * *

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

"Copyright owner", with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right.

* * *

A work is "created" when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

A "device", "machine", or "process" is one now known or later developed.

To "display" a work means to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images non sequentially.

A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or both, that are being transmitted, is "fixed" for purposes

of this title if a fixation of the work is being made simultaneously with its transmission.

The terms "including" and "such as" are illustrative and not limitative.

A "joint work" is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.

"Literary works" are works, other than audiovisual works, expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the nature of the material objects, such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied.

"Motion pictures" are audiovisual works consisting of a series of related images which, when shown in succession, impart an impression of motion, together with accompanying sounds, if any.

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

* * *

"Publication" is the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance,

or public display, constitutes publication. A public performance or display of a work does not of itself constitute publication.

To perform or display a work "publicly" means –

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

"Registration", for purposes of sections 205(c)(2), 405, 406 410(d), 411, and 506(e), means a registration of a claim in the original or the renewed extended term of copyright.

"Sound recordings" are works that result from the fixation or a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.

"State" includes the District of Columbia and the Commonwealth of Puerto Rico, and any territories to which this title is made applicable by an Act of Congress.

A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

A "transmission program" is a body of material that, as an aggregate, has been produced for the sole purpose of transmission to the public in sequence and as a unit.

To "transmit" a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.

The "United States", when used in a geographical sense, comprises the several States, the District of Columbia and the Commonwealth of Puerto Rico, and the organized territories under the jurisdiction of the United States Government.

A "useful article" is an article having in intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. An article that is normally a part of a useful article is considered a "useful article".

* * *

A "computer program" is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.

§ 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;

(2) musical works, including any accompanying words;

(3) dramatic works, including any accompanying music;

(4) pantomimes and choreographic works;

(5) pictorial, graphic, and sculptural works;

(6) motion pictures and other audiovisual works;

(7) sound recordings; and

(8) architectural works.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

* * *

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

* * *

§ 107. Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or

research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

§ 108. Limitations on exclusive rights: Reproduction by libraries and archives

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§ 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

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§ 110. Limitations on exclusive rights: Exemption of certain performances and displays

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§ 111. Limitations on exclusive rights: Secondary transmissions

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§ 112. Limitations on exclusive rights: Ephemeral recordings

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§ 113. Scope of exclusive rights in pictorial, graphic, and sculptural works

* * *

§ 114. Scope of exclusive rights in sound recordings

* * *

§ 115. Scope of exclusive rights in nondramatic musical works: Compulsory license for making and distributing phonorecords

* * *

§ 116. Scope of exclusive rights in nondramatic musical works: Compulsory licenses for public performances by means of coin-operated phonorecord players

* * *

§ 116A. Negotiated licenses for public performances by means of coin-operated phonorecord players

* * *

§ 117. Limitations on exclusive rights: Computer programs

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

> (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or
>
> (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease, sale, or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.

§ 118. Scope of exclusive rights: Use of certain works in connection with noncommercial broadcasting

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§ 119. Limitations on exclusive rights: Secondary transmissions of superstations and network stations for private home viewing

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§ 120. Scope of exclusive rights in architectural works

* * *

§ 301. Preemption with respect to other laws

(a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to –

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or

(2) any cause of action arising from undertakings commenced before January 1, 1978;

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106; or

(4) State and local landmarks, historic preservation, zoning, or building codes, relating to architectural works protected under section 102(a)(8).

(c) With respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2047. The preemptive provisions of subsection (a) shall apply to any such rights and remedies pertaining to any cause of action arising from undertakings commenced on and after February 15, 2047. Notwithstanding the provisions of section 303, no sound recording fixed before February 15, 1972, shall be subject to copyright under this title before, on, or after February 15, 2047.

(d) Nothing in this title annuls or limits any rights or remedies under any other Federal statute.

(e) The scope of Federal preemption under this section is not affected by the adherence of the United States to the Berne Convention or the satisfaction of obligations of the United States thereunder.

(f)(1) On or after the effective date set forth in section 610(a) of the Visual Artists Rights Act of 1990, all legal or equitable rights that are equivalent to any of the rights conferred by section 106A with respect to works of visual art to which the rights conferred by section 106A apply are governed exclusively by section 106A and section 113(d) and the provisions of this title relating to such sections. Thereafter, no person is entitled to any such right or equivalent right in any work of visual art under the common law or statutes of any State.

(2) Nothing in paragraph (1) annuls or limits any rights or remedies under the common law or statutes of any State with respect to –

(A) any cause of action from undertakings commenced before the effective date set forth in section 610(a) of the Visual Artists Rights Act of 1990;

(B) activities violating legal or equitable rights that are not equivalent to any of the rights conferred by section 106A with respect to works of visual art; or

(C) activities violating legal or equitable rights which extend beyond the life of the author.

§ 501. Infringement of copyright

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of

the copyright or right of the author, as the case may be. For purposes of this chapter (other than section 506), any reference to copyright shall be deemed to include the rights conferred by section 106A(a). As used in this subsection the term "anyone" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

(b) The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

(c) For any secondary transmission by a cable system that embodies a performance or a display of a work which is actionable as an act of infringement under subsection (c) of section 111, a television broadcast station holding a copyright or other license to transmit or perform the same version of that work shall, for purposes of subsection (b) of this section, be treated as a legal or

beneficial owner if such secondary transmission occurs within the local service area of that television station.

(d) For any secondary transmission by a cable system that is actionable as an act of infringement pursuant to section 111(c)(3), the following shall also have standing to sue: (i) the primary transmitter whose transmission has been altered by the cable system; and (ii) any broadcast station within whose local service area the secondary transmission occurs.

(e) With respect to any secondary transmission that is made by a satellite carrier of a primary transmission embodying the performance or display of a work and is actionable as an act of infringement under section 119(a)(5), a network station holding a copyright or other license to transmit or perform the same version of that work shall, for purposes of subsection (b) of this section, be treated as a legal or beneficial owner if such secondary transmission occurs within the local service area of that station.

§ 502. Remedies for infringement: Injunctions

(a) Any court having jurisdiction of a civil action arising under this title may, subject to the provisions of section 1498 of title 28, grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.

(b) Any such injunction may be served anywhere in the United States on the person enjoined; it shall be operative throughout the United States and shall be enforceable, by proceedings in contempt or otherwise, by

any United States court having jurisdiction of that person. The clerk of the court granting the injunction shall, when requested by any other court in which enforcement of the injunction is sought, transmit promptly to the other court a certified copy of all the papers in the case on file in such clerk's office.

§ 503. Remedies for infringement: Impounding and disposition of infringing articles

(a) At any time while an action under this title is pending, the court may order the impounding, on such terms as it may deem reasonable, of all copies or phonorecords claimed to have been made or used in violation of the copyright owner's exclusive rights, and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced.

(b) As part of a final judgment or decree, the court may order the destruction or other reasonable disposition of all copies or phonorecords found to have been made or used in violation of the copyright owner's exclusive rights, and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced.

§ 504. Remedies for infringement: Damages and profits

(a) In General. – Except as otherwise provided by this title, an infringer of copyright is liable for either –

(1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or

(2) statutory damages, as provided by subsection (c).

(b) Actual Damages and Profits. – The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

(c) Statutory Damages. –

(1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $500 or more than $20,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.

(2) In a case where the copyright owner sustains the burden of proving, and the court

finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $100,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court it [sic] its discretion may reduce the award of statutory damages to a sum of not less than $200. The court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107, if the infringer was; (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords; or (ii) a public broadcasting entity which or a person who, as a regular part of the nonprofit activities of a public broadcasting entity (as defined in subsection (g) of section 118) infringed by performing a published nondramatic literary work or by reproducing a transmission program embodying a performance of such a work.

§ 505. Remedies for infringement: Costs and attorney's fees

In any civil action under this title, the court in its discretion may allow the recovery of full costs by or against any party other than the United States or an officer thereof. Except as otherwise provided by this title,

the court may also award a reasonable attorney's fee to the prevailing party as part of the costs.

§ 506. Criminal offenses

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§ 507. Limitations on actions

(a) Criminal Proceedings. – No criminal proceeding shall be maintained under the provisions of this title unless it is commenced within three years after the cause of action arose.

(b) Civil Actions. – No civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued.

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ASSISTANT ATTORNEY GENERAL
LEGISLATIVE AFFAIRS

DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20530

July 27, 1976

Honorable Robert Kastenmeier
Chairman, Subcommittee on Courts,
Civil Liberties and the Administration of Justice
Committee on the Judiciary
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On May 8, 1975, Deputy Assistant Attorney General Irwin Goldbloom represented this Department before your Subcommittee on Courts, Civil Liberties and the Administration of Justice during hearings on H.R. 2223, a bill "For the general revision of the Copyright Law, title 17 of the United States Code, and for other purposes."

For a number of reasons, which will be discussed separately below, we would like to supplement the Department's earlier testimony.

I.

Because we were principally concerned with the many changes which the bill would make to the existing law of copyright, we did not discuss an issue which we now believe should be brought to your attention. In our view, the function and structure of the proposed Copyright Royalty Tribunal, which would be established by a

new chapter 8 to title 17, raises possible constitutional questions.

Proposed section 803 would authorize the Register of Copyrights to appoint a Copyright Royalty Tribunal consisting of three persons named by the American Arbitration Association. Section 801 would authorize this Tribunal to make determinations concerning the adjustment of copyright royalty rates specified by sections 111 and 115 and to make changes in the royalty rate, or the revenue basis on which the royalty fee is assessed, or both, to assure a reasonable royalty fee. The Tribunal would also determine in certain circumstances the distribution of the royalty fees deposited with the Register under sections 111 and 116. Section 111 concerns secondary transmissions; section 115 and 116 concern phonorecords and coin-operated phonorecord players.

A final determination of the Tribunal in any proceeding for adjustment of a statutory royalty would be required by section 806 to be transmitted to the Secretary of the Senate and the Clerk of the House for reference to the Judiciary Committees. Proposed section 807 provides that either House of Congress may veto the "recommended royalty adjustment" by adopting a resolution of disapproval within ninety days. Proposed section 809 would attempt to limit judicial review of a final determination of the Tribunal to situations where the determination was procured by fraud, where partiality or corruption of any member of the panel was evident, or where any member of the panel was guilty of any misconduct which may have prejudiced a party.

The absence of meaningful standards for the Tribunal's decision making, the Tribunal's transient and inexpert membership, its lack of continuity in establishing policy and precedent, and the very restricted judicial review provision, taken together, raise questions whether petitioners before the Tribunal can be assured of due process of law.

Moreover, the Tribunal, with its administrative (ratemaking) and judicial (dispute resolution) functions, would be lodged within the Library of Congress, an arm of the Congress, thereby raising separation of powers questions. Both executive and judicial prerogatives may be jeopardized by placing within the exclusive control of Congress powers which are not legislative in nature. Indeed, separations of powers questions have already been raised with respect to the existing location of the Copyright Office within the legislative branch. See Brylawski, "The Copyright Office: A Constitutional Confirmation," 44 *Geo.Wash.L.Rev.* 1 (1976).

Furthermore, in our view, the one-House veto mechanism raises questions concerning Article I, section 7, of the Constitution which prescribes the procedures by which the Congress legislates. The Constitution has created a process whereby both Houses and the President have a role in creating legislation and mentions no procedure whereby one House can take actions which have the force of law.

II.

On February 19, 1976, the Senate passed S. 22, the Senate omnibus copyright reform bill, making certain

changes to section 301. We believe that these changes have anticompetitive implications which should be called to your attention.

Section 301 would provide that the federal Copyright Act would preempt all state regulation of rights in the nature of copyright protection. However, certain exceptions to complete preemption would be made by subsection (b) of section 301. The Senate-passed bill made two significant additions to the exceptions, both of which are opposed by this Department. These additions seemingly allow (1) protection under the theory of misappropriation, and (2) less preemption than the committee intended with respect to state law regarding sound recordings made prior to 1972.

A. Misappropriation

Paragraph (3) of section 301(b) would exempt from preemption, state common law or statutory rights that are not equivalent to the exclusive rights granted by the Copyright Act. The Copyright Act would grant rights such as the exclusive right to make copies of the copyrighted work (Section 106). In addition to the rights that paragraph (3) previously specifically listed as non-equivalent rights (e.g., breach of contract and breach of trust) the committee has now added "rights against misappropriation not equivalent to any of such exclusive rights. . . . " The committee report accompanying the bill asserts that there is a need for this provision because "state law should" be able to permit the misapparopriation [sic] theory to apply. S. Rep. 94-473, 94th Cong., 1st Sess. 116 (1975) (hereinafter, "Senate Report").

This Department is concerned that inclusion of the above quoted phrase in section 301 would sanction use of the highly anticompetitive "misappropriation" theory, and may defeat the underlying purpose of the preemption section.

1. The Misappropriation Doctrine is Anticompetitive

This Department strongly opposes allowance of monopolies based on the theory of "misappropriation." This term is not defined in the proposed Act, but the concept apparently stems from the much-criticized decision of the Supreme Court in *International News Service v. Associated Press*, 248 U.S. 215 (1918) (hereinafter, the "INS" case). In *INS*, the Supreme Court held that the defendant news service committed an unlawful act of unfair competition by copying the plaintiff's uncopyrighted published new stories from east coast newspapers and wiring them west coast subscribing newspapers. The Court found that even though the plaintiff would have had no rights against the public, who were entitled or privileged to copy the articles, nonetheless the defenant [sic] had "misappropriated" the published work done by the plaintiff and was therefore liable to the plaintiff. The Court's theory was that the defendant's conduct was unlawful because it sought to "reap where it has not sown" (248 U.S. at 239). This unjust enrichment theory could be used broadly to prohibit the copying of uncopyrighted published materials, the manufacture by others of unpatented goods, the use by a doctor of a surgical technique developed by another

doctor, or the use of an advertising technique which another has developed at his own expense. The effect of the theory is boundless – it is potentially applicable each time a person engages in conduct that imitates some work that was developed at another's expense.

The courts generally have declined[1] to follow the suggestion in the *INS* case that the traditional unfair competition doctrine be expanded to cover so-called "misappropriation."[2] See, e.g., *G. Ricordi & Co. v. Haendler*, 194 F.2d 914, 916 (2d Cir. 1952); *National Comics Pub., Inc. v. Fawcett Pub. Inc.*, 191 F.2d 594, 603 (2d Cir. 1951); *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86, 90 (2nd Cir.), cert. denied, 311 U.S. 712 (1940); *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279, 280 (2d Cir. 1929), cert. denied, 281 U.S. 728 (1930). Indeed, District Judge Wyzanski once stated his belief that the Supreme Court would follow the Brandeis dissent in *INS* and overrule *INS* if given the opportunity. *Triangle Pub., Inc. v. New England Newspaper Pub. Co.*, 46 F. Supp. 198, 204 (D. Mass. 1942). This view is supported by the recent *Sears* and *Compco* decisions,[3] in which the Supreme Court reversed decisions from a court of appeals that prohibited copying of unpatented products, without even attempting to distinguish *INS*. See also *Columbia Broadcasting System, Inc. v. DeCosta*, 377 F.2d 315, 318 (1st Cir.), cert. denied, 389 U.S. 1007 (1967), in which

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[1] See 2 R. Callmann, Unfair Competition, Trademarks & Monopolies, § 60.2 at 505, 507 (3d ed. 1975).

[2] The *INS* decision predates *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938), and is thus no longer binding on federal courts.

[3] *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234 (1964).

the court found both that *INS* was no longer authoritative, since it occurred before *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938),[4] and that it was overruled by *Sears* and *Compco*.

The New York State courts, in a series of cases beginning with appropriation of news and artistic productions, retrieved the "misappropriation" theory of *INS* from innocuous desuetude and gradually extended the doctrine into the area of unfair competition in the sale of ordinary merchandise.[5] The *INS* doctrine has also been codified in the New York General Business Law (§ 368-d). The bulk of authority elsewhere in the United States, however, is against the recognition of "misappropriation" as an independent basis for recovery in imitation cases (*West Point Mfg. Co. v. Detroit Stamping Co.*, 222 F.2d 581, 598-99 (6th Cir. 1955) (misappropriation is "contrary to the great weight of authority")).

This Department supports the position taken in the foregoing majority line of cases, and opposes any attempt to limit nondeceptive copying of uncopyrighted or unpatented subject matter by the general public. We believe that sound policy reasons underlie the weight of authority that opposes the *INS* "misappropriation" doctrine.

The "misappropriation" theory is vague and uncertain. The "misappropriation" provision of section 301 does not indicate what it is that is not to be appropriated.

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[4] Under *Erie*, federal courts are to apply local law to non-federal causes of action.

[5] Cases reviewed in Kaplan & Brown, Cases on Copyright, Unfair Competition, and Other Topics 614-19 (2d Ed. 1974).

It may extend beyond an appropriation of the forms or styles of ordinary merchandise to include an appropriation of mere ideas, or technology or other know-how long in the public domain. Neither the *INS* case, other cases, nor proposed paragraph (3) adequately defines the conduct prohibited, or establishes any standard for distinguishing improper, as opposed to proper, copying.[6]

The "misappropriation" doctrine may be used contrary to copyright and antitrust policies to sustain perpetual monopolies over printed matter, and contrary to patent and antitrust policies to sustain perpetual monopolies over alleged inventions which do not qualify for patent protection. In the *Sears* and *Compco* cases, noted above, the Supreme Court set aside such grants and held the states to be without power to block off from the public the nondeceptive copying of an unpatentable article. The Court held this in the ground that such grants contravene the federal patent statutes and constitutional provisions.

Furthermore, imitation is the life-blood of competition. Mere commercial copying is neither unlawful, nor immoral; instead it is often a commercial and economic necessity. Copying very often supports and promotes competition – it spurs further invention and innovation, permits newcomers to enter markets, and generally, by bringing forward functionally equivalent products and services, is a necessary condition for the competitive

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[6] Such vague language, of course, may present serious due process problems under the United States Constitution. See *United States v. Cardiff*, 344 U.S. 174 (1952); *United States v. Evans*, 333 U.S. 483 (1948).

forces of the marketplace acting to lower prices, satisfy consumer demand, and allocate production optimally.

2. Preemption Would Be Nullified

Paragraph (3), as noted above, lists causes of action, such as for breach of contract, that are specifically identified in the introductory phrase as giving "rights that are not equivalent to any of the exclusive rights" that would be granted by section 106 of the proposed Copyright Act. These are causes of action different in nature from that for copyright infringement (see Senate Report, p. 115). Apparently what is meant is that, for example, one may sue to enjoin reproduction of an uncopyrighted book if there is a contract between the parties prohibiting the defendant from reproducing it. Thus, reproducing the literary expression itself may be prohibited under a cause of action for breach of contract.

Similarly, paragraph (3) exempts from preemption "rights against misappropriation not equivalent to any of such rights" specified in section 106. This apparently would permit states to prohibit the reproduction of the literary expression itself under a "misappropriation" theory. "Misappropriation" would stand in the place of breach of contract as a cause of action in the book example above. Any copying of copyrightable subject matter that has not been federally protected could be prohibited under the amorphous theory of "misappropriation."

The Senate Report states (p. 116) that reproduction of "the literary expression" itself should be preempted and should not be able to be prohibited under the "misappropriation" theory; yet that is what inclusion of the term

"misappropriation" in paragraph (3) would prohibit. The preemption sought by the omnibus Copyright Act revision bill would be nullified by paragraph (3).

While "misappropriation" is almost certain to nullify preemption, any of the causes of action listed in paragraph (3) following the phrase "as specified by section 106" may be construed to have the same effect. For example, a court could construe the copying of an uncopyrighted published book to be an invasion of the author's right to privacy, i.e., the right to keep the control of the publication of his book privately to himself. In order to more clearly delineate the [sic] courts the area to be preempted, we recommend striking the specific causes of action listed in paragraph (3) so as to amend that paragraph to preempt only: "(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106;."

3. Recommendation

For the reasons discussed, this Department recommends that section 301(b)(3) be amended as suggested above.

B. Sound Recordings

Paragraph (4) of section 301(b) would exempt from preemption state laws with respect to sound recordings fixed prior to February 15, 1972. That date was the date that sound recordings were first made subject to federal

Copyright Act protection under the "tape-piracy" amendment of 1971.[7] The legislation making that amendment specified that the protection was only to be given to recordings fixed after that date, and that the amendment was not to be "applied retrospectively or be construed as affecting in any way rights with respect to sound recordings fixed before [that date]." The protection given by that amendment (§ 1(f) of the Copyright Act, 17 U.S.C. § 1(f)) was to the owner of the copyright in the recording (e.g., the plastic disc played on phonographs) to prevent others from rerecording the work for commercial purposes. Section 114 proposed in S. 22 would continue this protection given by present § 1(f).

As explained in the Senate Report (p. 116), the intent of paragraph (4) is to ensure that "nothing in [the Copyright Act] annuls or limits the authority of states to prevent the unauthorized duplication of sound recordings fixed prior to February 15, 1972." However, rather than narrowly defining an exception to the otherwise general preemption sought by the omnibus Copyright Act revision bill, paragraph (4) as drafted may exempt from preemption much more than state tape-piracy laws. It exempts all state laws with respect to "sound recordings fixed prior to February 15, 1972," without limiting the exemption to those laws dealing with tape-piracy.

The paragraph may be amended, however, more precisely to accomplish the Committee's intent to permit states to prohibit tape-piracy with respect to recordings

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[7] Act of October 15, 1971, Pub. L. 92-140, 85 Stat. 391.

made before February 15, 1972.[8] Paragraph (4) may be clarified by amending it to read:

> (4) Sound recordings fixed prior to February 15, 1972, that are equivalent to any of the exclusive rights specified by section 114 with respect to sound recordings fixed on or after February 15, 1972.

III

This Department testified with respect to section 601 of H.R. 2223 on May 8, 1975. We wish to reemphasize our remarks and note similar concerns with respect to section 602.

Subject to specified exceptions, Section 601 provides that the importation into or public distribution in the United States of more than 2,000 copies of a work consisting preponderantly of nondramatic literary material in the English language by an American or resident alien author and protected under the copyright law is prohibited, unless portions consisting of such material have been manufactured in the United States or Canada. This

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[8] Paragraph (4) as drafted was suggested by Deputy Assistant Attorney General Irwin Goldbloom of the Civil Division of the Department of Justice in his testimony at hearings in the House of Representatives regarding H.R. 2223, the House omnibus copyright bill. The undue scope of paragraph (4) was just recently recognized. The amendment suggested below more precisely implements the Department's concern expressed by Deputy Assistant Attorney General Goldbloom at the hearing and the purpose for his suggestion at that time, that state anti-piracy laws relating to pre-1972 recordings not be preempted.

section would reenact in modified form a highly protectionist trade barrier contained in the present copyright law (17 U.S.C. §16). Section 601 is entirely unrelated to questions of copyright and offers no protection to authors. On the contrary, Section 601 decreases the value of copyrights. For example, it prevents an American author from granting worldwide publication rights to a foreign publisher who offers more favorable compensation than an American publisher. Whatever the merits of the original justification for the manufacturing clause, the restriction is clearly unnecessary and inappropriate today in light of the strength of our publishing and printing industries and in light of our nation's commitment to competition and the elimination of nontariff barriers in international trade.

Section 602, a related provision which was not treated specifically in the Department's prior testimony, may be even more anticompetitive in scope. Section 602 declares two types of importation to be an infringement of a U.S. copyright: (a) importation of "piratical" copies (i.e., copies made without the authorization of the copyright owner), and (b) "unauthorized" importation of copies lawfully made. In the Department's opinion the importation of copies lawfully made abroad but not authorized by the U.S. copyright holder is not an infringement under the present law. Present law holds that the copyright owner's control over a work is terminated at the time of the first lawful sale, and the purchasers are free to resell the work without restriction or limitation. This new provision will enable the U.S. copyright holder to prohibit imports into the United States by foreign jobbers who have purchased lawfully made

copies of the book from a foreign publisher, thus effecting a restraint on resale of books. This restriction has no benefit to the author since he has already been paid a royalty by the foreign publisher, but it limits the availability of competitive books to the consumer. Such a restraint on resale is anticompetitive and could be a violation of the Sherman Act. Furthermore, in November, 1974, the Department brought an antitrust action against a large number of major U.S. publishers alleging an international market allocation scheme which had the effect of restricting the sale of competitive books in the English-speaking world (*United States* v. *Addison-Wesley, et al.*, 74 Civ. 5176 (S.D.N.Y.)). The ability to bring an infringement action under Section 602 against books lawfully published abroad could hinder the Department's efforts to foster increased competition in the publishing industry.

Section 602 goes one step further by authorizing the establishment of a procedure under which a copyright holder can arrange for the Bureau of Customs to notify him whenever articles appearing to infringe his work are imported. This gives the copyright holder the services of the Bureau of Customs to police his territorial exclusivity and will greatly increase his ability to enforce it.

For these reasons, the Department of Justice opposes enactment of Section 601 and those parts of Section 602 dealing with the "unauthorized" importation of books lawfully published abroad.

IV

This Department also testified with respect to Title II of H.R. 2223, "The Design Protection Act of 1975." We

wish to reemphasize our opposition to these provisions. The Department of Justice continues to oppose Title II as it has similar legislation in the past.

Title II would provide a new type of monopoly protection, different from either copyright or design patent, for ornamental design features of useful articles. Protection would be given for the decorative features of almost all useful articles, such as furniture, appliances, and cars. The protection would extend for a five-year, once-renewable period. Remedies would include injunctions, damages and attorney's fees.

Design patent protection is presently afforded these designs by 35 U.S.C. §§171-173 if they meet the criteria for patents including novelty and unobviousness over the prior art (35 U.S.C. §§102, 103). Copyright protection is presently not afforded these designs unless they can exist separately from the useful article and may be considered a "work of art" (17 U.S.C. §5(g), 37 C.F.R. §202.10(c)).

Enactment of the proposed legislation would provide statutory protection for designs that are currently not subject to either patent or copyright protection, provide an alternate form of protection for subject matter currently subject to design patent protection, and provide an additional form of protection for copyrighted subject matter used in a useful article.

This legislation would create a hybrid form of statutory monopoly – between design patents and copyrights. In contrast, however, with the design patent law (35 U.S.C. §§171-173) and the Copyright Office regulations

(37 C.F.R. §202.10), protection would be afforded to registered designs without regard to the degree of creativity of the authorship involved.

Enactment of Title II would likely substantially increase the cost to the public for many useful articles. The copier may perform a number of economically useful functions which deserve encouragement. He may simply produce the useful article at a lower cost. He may achieve wider distribution. He may couple the design with some other useful article. He may do none of these, but by merely providing competition he may force lower profit margins and greater efficiency.

The protection afforded by Title II would not likely appreciably encourage the creation of ornamental designs of useful articles to the benefit of the public. Observation indicates that manufacturers are eager to create good ornamental designs. Stiffel's creation of the pole lamp was undoubtedly highly profitable and the rewards available from being first with a new design are substantial.[9] Had Sears been forced to create a new design for a pole lamp would the public have benefitted in the slightest? The individual who originates an ornamental design protected by Title II would likely rarely benefit from the protection. His corporate employer might enjoy monopoly profits, but the salaried designer is not likely to be stimulated to be more creative thereby.

Design protection would likely restrict healthy competition. An established company in a field would be in a

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[9] See *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964).

position to harass newcomers with the claim that registered designs were being infringed. Could not General Motors have protected the tail fin, the fast back, and so many other design elements as to force its competitors to build ugly or unattractive cars? Probably even that distinctive Volkswagen styling would be protectable. If tail fins are popular, we think it very healthy that auto companies be able to make cars with tail fins. We believe monopolies on what are basically utilitarian articles should be limited to those which protect inventions meeting the requirements for patentability. The opportunities to restrict others from competing afforded by Title II are immense without any commensurate benefits to the public.

To omit federal statutory protection for the form of a useful object is not to deny the originator of that form any remedy whatsoever.

Originators of designs for useful objects receive protection for their designs when they prove that the public is damaged by the copying, *i.e.*, competitors are passing off goods as the originator's by copying the product's design. See *Crescent Tool Co.* v. *Kilborn & Bishop Co.*, 247 Fed. 299 (2d Cir. 1917). See also *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

In addition, there is a constitutional question as to whether the designs intended to be protected are "discoveries" or "writings" within the meaning of the Patent and Copyright Clause of the Constitution, Article I, section 8, clause 8, which would be essential to support the legislative authority in enacting this bill. Title II would protect

almost any design not copied from another source, a lesser standard for protection than the standard of invention which has been required as a condition of patentability for both design and utility patents. 35 U.S.C. §§171, 102, 103; see *Hotchkiss* v. *Greenwood*, 11 How. 248 (1851). The Supreme Court's recent discussion of the patent and Copyright Clause suggested that the traditional requirement of invention as a condition of patentability reflected a limitation of power inherent in the constitutional clause itself. *Graham* v. *John Deere Co.*, 383 U.S. 1, 9 (1966). In granting statutory protection to designs not amounting to an invention, Title II might be held beyond the power granted to Congress by Article I, section 8, clause 8.

It is equally questionable whether Title II would fall within Congress' power to protect the "writings" of "authors". The question whether a commercial design constitutes "writings" subject to copyright protection under the Constitution has not been decided by the Supreme Court. The *Graham* opinion's recognition of the limitations on Congress' power under the Patent and Copyright Clause, and the separate opinion of Mr. Justice Douglas in *Mazer* v. *Stein*, 347 U.S. 201, 219 (1954), suggest the substantiality of this constitutional question. Since Title II is not limited to transactions in or affecting interstate commerce, it cannot be supportable under the Commerce Clause. See *Trade-Mark Cases*, 100 U.S. 82 (1879).

Quite apart from our opposition to the merits of Title II, we also oppose enactment of the design protection provisions of Title II which would provide a new class of actions against the United States. Title II proposes to

amend 28 U.S.C. § 1498(a) to add the new type of design copyrights to the remedies available against the United States to inventors who have been issued United States patents when they are used by the United States without authorization of the owner. For example, by amending Section 1498(a) in this way, the Congress will be creating a completely new problem area fraught with difficulties, for government contracts would not be faced with the necessity of designing around the "packaging looks" of a product covered by a design copyright which may not rise to the stature of patentable novelty and invention under the patent laws. Thus, the "non-utilitarian looks" of a vehicle which may not be protectable as a design patent would be given copyright-type protection under Title II. We, therefore, strongly oppose the new type of protection proposed by Title II.

28 U.S.C. § 1498(a) is also amended to provide for the first time for suits against the United States for unauthorized use of inventions, whether patented or unpatented. Thus, it would appear to permit a suit based on a trade secret containing an unpatented invention. This, also, we strongly oppose as inconsistent with limiting claims against the United States in 28 U.S.C. § 1498(a) to those recognized by the patent and copyright laws. No adequate showing has been made that this type of protection, on balance, is in the public interest.

The provision in Section 220 of Title II whereby simultaneous suit can be filed against the Administrator who carries out the provisions of Title II (§ 230) *and* an alleged infringer of the design is believed undesirable, and deserves specific comment. It subjects an alleged infringer to suit in the same action even though the

threshold question whether a certificate can issue under the provisions of the law has not been decided as between the Administrator and the applicant for registration. While it is not likely that the issuance of certificates of registration will be frequently refused if certain basic requisites of applications are met, nevertheless, if a situation should arise of a refusal of issuance of a certificate or registration by an Administrator, this should require a separate and distinctive action to secure issuance thereof. The present proposal encourages and condones harassment of competitors based on an ungranted right, and is thus highly anti-competitive. Furthermore, governmental functions should not normally be mixed with the proprietary enforcement functions of court in adjudicating private rights and remedies.

For these reasons, the Department of Justice continues to be opposed to enactment of Title II.

V.

The Department does not recommend enactment of the Criminal penalties for the infringement of sound recording and motion picture copyrights contained in section 506(a) of S. 22 as passed by the Senate. Despite our prior support, in 1974, of identical felony penalties in another bill (H.R. 13364), our experience over the past two years in prosecuting tape and motion picture pirates indicates that first offense felony provisions are likely to be counter-productive to our prosecutive efforts.

In calendar year 1974, approximately 75 defendants were convicted of criminal copyright infringement; in calendar year 1975, approximately 90 defendants were

convicted. Over 85% of these defendants were convicted as a result of guilty pleas, a percentage that will almost certainly drop substantially if first-time infringers are faced with felony charges. Furthermore, over 95% of all defendants charged since 1972 have been convicted, and no defendant has ever been acquitted by a jury. In light of these statistics, we see little reason to increase the present misdemeanor classification of first offenses to that of a felony. In fact, some reluctance by U.S. Attorneys to prosecute those who are not major violators may be anticipated if the only available charge is a felony, whereas there would be no hesitancy to prosecute them as misdemeanants. Additionally, investigations may be hampered by witnesses and informants who are reluctant to provide information that could lead to felony, as opposed to misdemeanor, convictions.

The recording industry has recently estimated that the annual dollar volume of tape and record piracy has been cut in half from its peak annual rate of $250 million in 1972-1973. While efforts by the industry, the courts, and state and local governments have doubtlessly had an impact, industry officials give major credit for this reduction to Federal enforcement efforts.

The Department of Justice is of the opinion, then, that present penalties are adequate to deal with the problem of criminal infringements, *provided* that the forfeiture provisions passed by the Senate (sections 506(b) and 509 of S. 22) are retained to permit disposal of the vast quantities of infringing materials seized during copyright investigations. Therefore, we recommend that section 506(a) be amended to read as follows:

> (a) *Criminal infringement* – Any person who infringes a copyright willfully and for purposes of commercial advantage or private financial gain shall be fined not more than $2,500 or imprisoned not more than one year, or both, for the first such offense, and shall be fined not more than $10,000 or imprisoned not more than three years, or both, for any subsequent offense: *provided, however,* that any person who infringes willfully and for purposes of commercial advantage or private financial gain the copyright in a sound recording afforded by subsections (1), (2), or (3) of section 106 or the copyright in a motion picture afforded by subsections (1), (3), or (4) of section 106 shall be fined not more than $25,000 or imprisoned for not more than 1 year, or both, for the first such offense and shall be fined not more then $50,000 or imprisoned not more than 3 years, or both, for any subsequent offense.

Note that the conjunction "or," rather than "and," should separate enumerated subsections to clearly indicate that an infringement may occur of any one of the exclusive rights granted by those subsections.

VI.

For these reasons, and those expressed at the hearings, the Department of Justice is opposed to certain provisions of the omnibus copyright revision bill pending in the House, and that passed by the Senate.

The Office of Management and Budget has advised this Department that it has no objection to the submission

of this report from the standpoint of the Administration's program.

Sincerely,
/s/ Michael M. Uhlmann
Michael M. Uhlmann
Assistant Attorney General

FINAL
REPORT
of the National Commission
on New Technological Uses
of Copyrighted Works

July 31, 1978

Library of Congress/Washington 1979

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Computers and Copyright **Chapter 3**

In creating the Commission, Congress directed that two broad subjects concerning computers and copyright be addressed: the creation of new works with computer assistance and the use of copyrighted works in conjunction with computers. With respect to the second area, the Commission has considered three separate issues: the placement into computers of any copyrighted works, the use of automated data bases, and copyright protection for the intellectual property in computer programs.

Because this study was to be undertaken, Congress included a section in the new copyright law specifying that a copyright owner had the same rights with respect to computer uses of copyrighted works as were available under the copyright law before the effective date of the Act of 1976 – existing state statutes, case law, and the provisions of the Copyright Act of 1909.[36] The legislative history of the 1976 Act clearly shows that Congress intended that the provision be continued, eliminated, or

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[36] 17 U.S.C. § 117.

modified, based upon the Commission's recommendations.[37]

Background

From the Renaissance through the Industrial Revolution to the present, technological developments have consistently extended society's power to control natural phenomena and to shape its own destiny. The rapid developments in communications and information technology of the past three decades have immeasurably expanded and extended the power of human communication.

One of the most important contributions to the communication and information revolution has been the digital computer. Animated by elements of human creative genius, these machines are opening new avenues for recording, storing, and transmitting human thought. New means of communication transcend words fixed on paper or images on film and permit authors to communicate creatively, adaptively, and dynamically with their audience.

The first commercial computers, built shortly after World War II, were based largely on vacuum tubes and were so expensive that only the government or the largest corporations could even consider owning them. To function, the typical early computer required an environment

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[37] House Report, *supra* note 1, p. 116.

in which temperature and humidity were carefully monitored. It was controlled by programs created by its manufacturer and users exclusively for that particular computer.

Subsequent generations of computers have been characterized by dramatic reductions in the size, energy requirements, and price for a given amount of computational power. These generations are measured by the changes in the electronic circuitry of the computer. The four generations now generally acknowledged have been based upon vacuum tubes, transistors, printed circuits, and integrated circuits, respectively.

Foundation for the Recommendations

Computer Programs[38]

Computer programs are a form of writing virtually unknown twenty-five years ago. They consist of sets of instructions which, when properly drafted, are used in an almost limitless number of ways to release human beings from such diverse mundane tasks as preparing payrolls, monitoring aircraft instruments, taking data readings, making calculations for research, setting type, operating assembly lines, and taking inventory. Computer programs are prepared by the careful fixation of words, phrases, numbers, and other symbols in various media. The instructions that make up a program may be read, understood, and followed by a human being. For both

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[38] Separate opinions by Commissioners Nimmer, Hersey, and Karpatkin follow in this chapter.

economic and humanitarian reasons, it is undesirable for people to carry out manually the process described in painstaking detail in a computer program. Machines, lacking human attributes, cannot object to carrying out repetitious, boring, and tedious tasks. Because machines can and do perform these tasks, people are free to do those other things which they alone can do or in which they find a more rewarding expenditure of their efforts.

Great changes have occurred in the construction of computers, as well as in the media in which programs are recorded. Periodic progress has seen the development, utilization, and, in some cases, passage into obsolescence of bulky plug boards, punched paper cards and tape, magnetic tapes and disks, and semiconductor chips. It should be emphasized that these developments reflect differences only in the media in which programs are stored and not in the nature of the programs themselves.

The evolution of these media is similar to that of devices for playing recorded music. Circuit boards may be compared to music boxes, and punched paper to piano rolls, while magnetic disks and tapes store music and programs in precisely the same manner. Both recorded music and computer programs are sets of information in a form which, when passed over a magnetized head, cause minute currents to flow in such a way that desired physical work is accomplished.

The need for protecting the form of expression chosen by the author of a computer program has grown proportionally with two related concurrent trends. Computers have become less cumbersome and expensive, so that individuals can and do own computers in their

homes and offices with more power than the first commercial computers, while at the same time, programs have become less and less frequently written to comply with the requirements imposed by a single-purpose machine.

Just as there was little need to protect the ridged brass wheel in a nineteenth-century music box, so too was there little reason to protect the wired circuit or plug boards of early computers. The cost of making the wheel was inseparable from the cost of producing the ridged final product. The cost of copying a reel of magnetic tape, whether it contains a Chopin etude or a computer program, is small. Thus, the following proposition seems sound: if the cost of duplicating information is small, then it is simple for a less than scrupulous person to duplicate it. This means that legal as well as physical protection for the information is a necessary incentive if such information is to be created and disseminated.

This proposition is the underlying principle of copyright, but from 1908 until early 1972 the copyright laws of the United States did not reflect its acceptance with respect to one form of expression: recorded sounds. Because the Supreme Court held in 1908 that since a piano roll was not readily perceptible to human eyes it was not a copy of the music it rendered on a player piano, there was almost "open season" – at least in terms of federal law – on the duplication of piano rolls, shellac and vinyl records, and audio tape recordings.[39] Certain

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[39] White-Smith Music Pub. Co. v. Apollo Co., 209 U.S. 1 (1908).

states made it illegal to duplicate such works, but federal copyright remained almost powerless in this area. While this rule was often criticized, its effect was apparently not too deleterious to producers of recorded sounds, so long as the cost of disk duplication made commercial piracy an expensive undertaking. Records and piano rolls were doubtless duplicated and sold, but on a less than threatening scale. The development of inexpensive transistorized tape recording equipment and its use by organized pirates posed serious economic problems for either the 1908 rule or the recording industry. But the principle persevered and finally prevailed in the Sound Recording Act of 1971, which provided sanctions against those who engage in the unauthorized duplication of sound recordings.[40]

As the number of computers has increased dramatically, so has the number of programs with which they may be used. While the first computers were designed and programmed to perform one or a few specific tasks, an ever increasing proportion of all computers are general-purpose machines which perform diverse tasks, depending in part upon the programs with which they are used. Early programs were designed by machine manufacturers to be used in conjunction with one model or even one individual computer. Today, many programs are designed to operate on any number of machines from one or more manufacturers. In addition, and perhaps even more importantly, there is a growing proportion of programs created by persons who do not make machines.

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[40] P.L. 92-140, 85 Stat. 391 (1971).

These people may be users or they may be – and increasingly are – programmers or small firms who market their wares for use by individual machine owners who are not in a position to write their own programs. Just as Victrola once made most of the first record players and records, so too did early machine manufacturers write most of the first programs. Victrola's successor, RCA, still produces sound recordings (but, interestingly enough, not phonographs), but so do hundreds of other firms. If present computer industry trends continue, it is all but certain that programs written by nonmachine manufacturers will gain an increasing share of the market, not only because writing programs and building machines are two very different skills that need not necessarily occur simultaneously, but also because program writing requires little capital investment.[41]

The cost of developing computer programs is far greater than the cost of their duplication. Consequently, computer programs, as the previous discussion illustrates, are likely to be disseminated only if:

1. the creator may recover all of its costs plus a fair profit on the first sale of the work, thus leaving it unconcerned about the later publication of the work; or

2. the creator may spread its costs over multiple copies of the work with some form of protection against unauthorized duplication of the work; or

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[41] For a discussion of barriers to entry in the hardware and software markets, see this chapter under Economic Effects of Program Copyright.

3. the creator's costs are borne by another, as, for example, when the government or a foundation offers prizes or awards; or

4. the creator is indifferent to cost and donates the work to the public.

The consequence of the first possibility would be that the price of virtually any program would be so high that there would necessarily be a drastic reduction in the number of programs marketed. In this country, possibilities three and four occur, but rarely outside of academic and government-sponsored research. Computer programs are the product of great intellectual effort and their utility is unquestionable. The Commission is, therefore, satisfied that some form of protection is necessary to encourage the creation and broad distribution of computer programs in a competitive market.

The Commission's conclusion is that the continued availability of copyright protection for computer programs is desirable.[42] This availability is in keeping with nearly two centuries' development of American copyright doctrine, during which the universe of works protectible by statutory copyright has expanded along with the imagination, communications media, and technical capabilities of society.

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[42] The Copyright Office presently accepts computer programs for registration. (See this chapter under Statutory Copyrightability of Programs and Appendix A under Eighty-eight Congress, 1964 Revision Bill.)

This conclusion is in accord with the recommendations of groups studying this issue for the United Kingdom and the World Intellectual Property Organization.[43] Both studies recommended that computer programs be afforded protection to a degree that is virtually identical to American copyright.[44] A Canadian study reached the opposite conclusion, and an Australian report considered computer issues outside its terms of reference.[45]

The Commission also believes that the effects of the recommendations pertaining to computer programs made in this report, as well as those pertaining to the other computer-related subjects within the Commission's jurisdiction, should be periodically reviewed. This could be accomplished on a smaller scale than that undertaken by the Commission but should be performed well and often enough to prevent the copyright law from becoming as anachronistic as did the 1909 Act.

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[43] COPYRIGHT AND DESIGNS LAW: REPORT OF THE COMMITTEE TO CONSIDER THE LAW ON COPYRIGHT AND DESIGNS (H.M.S.O., 1976) (frequently known as the Whitford Committee Report); MODEL PROVISIONS ON THE PROTECTION OF COMPUTER SOFTWARE (1978).

[44] A recent study for the World Intellectual Property Organization (WIPO) notes that "in a number of countries it would already be possible to give such protection [to programs] on the basis of current legislation on copyright . . . and consequently special legislation would not be necessary. In various countries including the United States . . . there would seem to be no particular desire to set up special provisions to protect software." (Kolle, *Computer Software Protection – Present Situation and Future Prospects*, 1977 Copyright 72).

[45] KEYES and BRUNET, COPYRIGHT IN CANADA: PROPOSALS FOR A REVISION OF THE LAW (1977); REPORT OF THE COPYRIGHT LAW COMMITTEE ON REPROGRAPHIC REPRODUCTION (1976).

The Commission is unanimous in its belief that computer programs are entitled to legal protection. But the unanimity has not extended to the precise form that protection should take.[46] The law as it exists today with respect to the protection of computer programs is not totally clear. What is clear is that today there are different and often conflicting methods used by proprietors to attempt to protect their products. These include patent and copyright – exclusively federal statutory methods; trade secret law – derived form statutory and judicial state law; and unfair competition – based on elements of common law and federal statute.[47]

To provide reasonable protection for proprietors without unduly burdening users of programs and the general public, the following statements concerning program copyright ought to be true:

1. Copyright should proscribe the unauthorized copying of these works.

2. Copyright should in no way inhibit the rightful use of these works.

3. Copyright should not block the development and dissemination of these works.

4. Copyright should not grant anyone more economic power than is necessary to achieve the incentive to create.

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[46] See this chapter for the separate opinions of Commissioners Nimmer, Hersey, and Karpatkin.

[47] See this chapter under Copyright and Other Methods Compared.

Relatively few changes in the Copyright Act of 1976 are required to attain these objectives, and the promulgation of regulations by the Copyright Office will ease the burden of compliance for both copyright owners and users.

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No. 91-1970

IN THE SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1992

KALITTA FLYING SERVICE, INC. ET AL., PETITIONERS

v.

G.S. RASMUSSEN & ASSOCIATES, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

WILLIAM C. BRYSON
Acting Solicitor General

STUART E. SCHIFFER
Acting Assistant Attorney General

LAWRENCE G. WALLACE
Deputy Solicitor General

EDWARD C. DUMONT
Assistant to the Solicitor General

DOUGLAS N. LETTER
RICHARD A. OLDERMAN
Attorneys
Department of Justice
Washington, D.C. 20530
(202) 514-2217

QUESTION PRESENTED

Whether a state law action for conversion and unjust enrichment, based on the unauthorized use of a design approval granted by the Federal Aviation Administration to obtain final certification of an aircraft modified in accordance with the approved design, is preempted by the federal system of air safety regulation or by federal patent or copyright law.

* * *

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BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

This brief is submitted in response to the Court's invitation to the Solicitor General to express the views of the United States.

* * *

DISCUSSION

This case involves a particular type of federal regulatory approval that is granted based on data compiled and submitted to the government by the holder. We interpret the decision below as recognizing a narrowly defined state-law property right in the use of that approval to shorten the process of receiving subsequent similar approvals, which nonetheless remain available to any applicant that is willing and able to compile and submit similar or identical data on its own. We take no position on the accuracy of the court of appeals' interpretation of state law.[4] Assuming that such a limited right exists, however, we do not believe that its enforcement would interfere with the administration of current federal law and regulations governing aircraft safety. Moreover, although any broad interpretation or expansion of the court of appeals' decision might well raise significant issues of federal preemption, we think it would be appropriate to await further developments in the lower courts before deciding whether it is necessary for this Court to address those issues. We therefore think that a grant of review in this case would be premature.

1. Petitioner argues, Pet. 5-12, that the court of appeals' decision will allow respondent to prohibit others

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[4] Petitioner contends that the court of appeals erred in stating that the parties agreed on the application of California law, see Pet. App. 11a, and suggests that Michigan law would have been more appropriate. Pet. 9-10 & n.8. This choice-of-law argument does not appear to have been presented to or considered by the court of appeals, and at any rate does not warrant review by this Court.

from "referring to, or submitting a copy of" respondent's STC in connection with their own applications for FAA approvals, prohibit the FAA itself from using data submitted by respondent in evaluating applications by others for approval of similar or identical modifications, and generally "disrupt and interfere with the FAA's regulation of interstate aviation." Pet. 5, 10. We think those contentions overstate the effect of the judgment below.

a. We do not understand the decision below to prohibit an STC applicant from merely "referring to, or submitting a copy of" an STC previously granted for a similar or identical modification. See Pet. 5. The court of appeals did discern a protected interest in "[t]he right to *use* the STC as a basis for obtaining an airworthiness certificate," and stated that although petitioner was free to copy the STC and associated documents, it could be "prevented from then using these copies to obtain an airworthiness certificate." Pet. App. 15a-16a. These references to the "use" of respondent's STC may appropriately be read, however, in the context of the court's "precise definition" of the right that it held was conferred by an STC and could be protected under state law: the right "to obtain an airworthiness certificate for a particular design modification *without the delay, burden and expense of proving to the FAA that a plane so modified will be safe.*" *Id.* at 13a (emphasis added).

As explained above (see pp. 3-4, *supra*), an application for airworthiness certification for a modified aircraft is ordinarily subjected to different and more searching review if the FAA is aware that the applicant has not obtained specific authorization from the holder of an STC covering the modification. In fact, such an applicant is

normally required to obtain its own STC. Yet the FAA does not use its resources to inquire into the legal relations among aircraft operators and STC holders, see Pet. App. 26a n.2, but generally relies on the representation of authorization implicit in the submission, without further comment, of a copy of another person's STC in connection with an airworthiness application.[5] In this setting, the essence of the right identified by the court of appeals consists of the ability to obtain an airworthiness certificate without enhanced review or the production of independent substantiating data, and it is the implicit misrepresentation by a new applicant that it is acting with the authorization of the holder of an existing STC that the court of appeals has, in effect, held actionable under California law. See *id.* at 20a-21a.

To be sure, ensuring greater disclosure to a federal regulatory agency than the agency itself chooses to enforce is a strange project for a State's common law of property – a project undertaken for the benefit of federal permit holders who are not otherwise entitled to the aid of state law in excluding others from copying or using the data or information on which the STC is based. Certainly

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[5] If, for example, petitioner had supplied the FAA with a copy of an STC purloined from respondents' offices, the FAA might well have granted the requested certification without further inquiry as to authorization. Similarly, if petitioner had applied for its own STC using nonpublic engineering or test data stolen from respondent, the FAA would not normally have inquired into the origins of the submitted information in the course of evaluating its sufficiency in terms of aircraft safety. We note that in either case nothing in the federal regulatory scheme would preempt enforcement of applicable state laws against theft.

a federal agency, including the FAA, could adopt rules or procedures that would obviate or preempt any such state-law right, and certainly such a right that impeded an agency's receipt of relevant information or otherwise interfered with the federal regulatory process would be so preempted. See, *e.g.*, *City of New York v. FCC*, 486 U.S. 57, 63-64 (1988); *Arkansas Elec. Coop. Corp. v. Arkansas Public Service Comm'n*, 461 U.S. 375, 388-389 (1983). Nonetheless, in the particular circumstances of this case, we do not read the court of appeals' opinion as restricting petitioner or any other applicant from pointing out to the FAA – by citation, inclusion of a photocopy, or otherwise – that its modification is identical to one for which respondent has previously received an STC.[6] Cf. 14 C.F.R. 21.303(c)(4) ("identicality" approval for parts manufacturers); 14 C.F.R. 21.183(d)(1). The FAA therefore does not expect the decision below to interfere with the normal functioning of its safety review and certification process.

b. Petitioner contends, Pet. 5-7, that the decision below conflicts with this Court's decision in *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984). In *Monsanto*, the Court made clear that when a private party submits

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[6] Similarly, we would not read the decision as recognizing any right of recovery for respondent based solely on the fact that the FAA might require a lesser showing of safety by a later applicant for an STC substantially identical to one it had previously approved. Cf. Pet. App. 12a n.11 (suggesting possibility of takings claim should there be a change in FAA's confidentiality policies). Any state law burdening the beneficiary of such a decision, made by the FAA within its statutory discretion and with full knowledge of the facts, would interfere impermissibly with the administration of federal law. This case presents no such issue.

otherwise proprietary information to a government agency under a comprehensive regulatory scheme, it can have no "reasonable investment-backed expectation" that the information will not be used or disclosed in ways consistent with that scheme. *Id.* at 1005-1008. Petitioner argues that the court of appeals "based its holding" on a determination that respondent had such an expectation of "exclusive rights to the data submited [sic] to obtain the STC." Pet. 7.

We do not read the court of appeals' opinion as placing any limitation on use by the FAA of data submitted by respondent or other STC applicants. As explained above (see p. 3, *supra*), it is the FAA's policy to use data supplied by prior applicants in evaluating subsequent applications filed by others if such use will help reduce the administrative resources required to ensure compliance with air safety requirements. See, *e.g.*, FAA Order No. 8110.4, ¶¶ 19-20 (App., *infra*, 1a-5a). Data so used are not disclosed to subsequent applicants or to other third parties, however, without explicit permission from the original applicant. *Ibid.* Nothing in the opinion below appears to call these procedures into question, and respondent explicitly disclaims any right to interfere with the FAA's operations or its "existing regulations and practices." Br. in Opp. 6, 11. We therefore agree with respondent that this case presents no conflict with *Monsanto.*

2. Whether the state law right recognized by the court of appeals is preempted by federal patent or copyright law is a closer question. The scope of the court's holding is not entirely clear, and if read broadly the decision might well trench impermissibly on areas

reserved exclusively for federal law. Because we think the court's decision can and should be read more narrowly, however, we believe that further review of this case is unnecessary.

a. The sweep of patent preemption is broad and is founded on the principle that "States may not offer patent-like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156 (1989). See also *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-238 (1964). As the court of appeals recognized, however, Pet. App. 17a, the central question is whether the property right that the court found protectable under state law is "patent-like." If that right protects only nonpublic data compiled by respondent to prove the safety of its modification, and not the modification itself, we think the better answer to that question is no.

As petitioner points out, Pet. 13, "the franchise secured by a patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee." *United Shoe Machinery Corp. v. United States*, 258 U.S. 451, 463 (1922). But the court of appeals made clear that respondent claims, and the court's decision confers, "no exclusive right to modify DC-8s as described in [respondent's] STC. [Petitioner] or anyone else may perform the necessary studies and obtain an STC from the FAA – even if the modification so certified is identical to [respondent's]." Pet. App. 17a.

As we read the decision below, petitioner remains free to obtain from the FAA, in its own name, an identical STC for an identical modification; to submit identical calculations or other data supporting its application, so long as it has developed them independently or derived them from public sources (including the face of respondent's STC); and even to point out to the FAA that the modification it is proposing is identical to one previously approved in respondent's STC. Petitioner is barred only from using or referring to respondent's STC without making clear that it has not been authorized to apply for certification under respondent's authority. Such a rule may deny petitioner the benefit of material nonpublic information submitted by respondent in support of its own STC application.[7] But that possible burden is quite similar to those imposed by state laws prohibiting the theft of private information, enforcing private contracts relating to otherwise unpatentable inventions, or prohibiting one merchant from passing off its goods as those of another. This Court has made clear that such state laws are generally valid.[8] See *Kewanee Oil Co. v. Bicron Corp.*,

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[7] Or it may not, depending on how much additional documentation the FAA chooses to require in a given case in which an applicant points out that its modification is identical to one previously approved.

[8] The "interesting and peculiar" right recognized by the court of appeals, Pet. App. 8a, bears some comparison to state laws regulating deceptive trade dress. In *Bonito Boats*, the Court quoted Judge Hand's summary of the traditional law of unfair competition:

> [T]he plaintiff has the right not to lose his customers through false representations that those wares are his which in fact are not, but he may not monopolize any

416 U.S. 470, 482-493 (1974); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262-266 (1979); *Bonito Boats*, 489 U.S. at 157-158.

b. The court of appeals' delineation, Pet. App. 15a-16a, of respondent's state-law rights with respect to the copying and use of uncopyrighted materials included in respondent's modification "implementation kit," including the STC itself and respondent's flight manual supplement, is less clear and therefore more troubling. We agree with petitioner, Pet. 15, that if state law prohibited petitioner from making "practical or commercial use" of copies of respondent's STC or manual supplement, including doing so by submitting such copies to the FAA in connection with petitioner's application for its

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> design or pattern, however trifling. The defendant, on the other hand, may copy plaintiff's goods slavishly down to the minutest detail: but he may not represent himself as the plaintiff in their sale.

489 U.S. at 157 (quoting *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917)). In this case, similarly, the decision below leaves petitioner free to copy respondent's aircraft modification "down to the minutest detail" – but not to represent to the FAA that it is doing so with authorization from respondent. Cf. *Compco*, 376 U.S. at 238 ("A State of course has power to impose liability upon those who, knowing that the public is relying upon an original manufacturer's reputation for quality and integrity, deceive the public by palming off their copies as the original.") Of course, the analogy between "palming off" goods to consumers and failing to disclose to a federal agency information that the agency has not formally required to be disclosed is far from compelling. As noted above (see pp. 11-12, *supra*), although we do not believe further review is warranted in this case, we remain doubtful that the right recognized by the court of appeals has much to do with traditional or appropriate concerns of state law.

own STC, then it would be preempted by federal copyright law.

As explained above (see pp. 10-12, *supra*), however, we think the court of appeals' statement, Pet. App. 16a, that under state law petitioner could be "prevented from * * * using * * * copies [of the STC or manual supplement] to obtain an airworthiness certificate" should be limited by the context of the opinion. The decision as a whole need stand for no more than the proposition that state law may restrain petitioner from using copies of the STC or the manual to pass off its application for an airworthiness certificate as one made under license from respondent. We do not think it should be read as permitting state law to interfere with petitioner's use of copies of uncopyrighted documents in connection with petitioner's own application for an STC, or for any other purpose, so long as petitioner does not claim or imply that use of the STC was authorized by respondent.[9]

Even that narrow construction of the court's decision is not unproblematic. To the extent that the decision would require a user of uncopyrighted materials to accompany those materials with an affirmative disclaimer of authorization or origin, it comes perilously close to prohibiting the mere act of public distribution – one of the rights protected exclusively by federal law. See, *e.g.*,

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[9] In particular, we would agree that petitioner has a federal right to use respondent's published and uncopyrighted flight manual supplement in connection with its own STC application, and even in "implementation kits" that it might compile and use or market to others once it had obtained its own STC for a modification identical to respondent's.

Computer Associates Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992). Because of the unusual regulatory regime involved in this case, however, and in light of the court of appeals' reliance on that regime as a material part of its analysis (see, *e.g.*, Pet. App. 9a-10a), this aspect of the court's decision, even if erroneous, is likely to prove of very limited practical importance. We therefore do not think that the decision merits review on this ground.[10]

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[10] Petitioner claims that the decision below conflicts with *Feist Publications, Inc. v. Rural Telephone Service Co.*, 111 S.Ct. 1282 (1991), in which this Court held that a telephone directory, although a laborious compilation of factual data, was not sufficiently original to be protected under the copyright laws. As petitioner notes, Pet. 13, the *Feist* court specifically rejected a "sweat of the brow" theory of copyright protection, see 111 S.Ct. at 1291-1295, while the court of appeals relied in part, Pet. App. 14a, on similar considerations of invested effort in determining that California law would recognize a protectable property interest in the use of the design certification that respondent obtained from the FAA. *Feist* rests, however, on "[t]he most fundamental axiom of copyright law": that no one may copyright an idea or a fact. 111 S.Ct. at 1287. That axiom has little relevance to this case, which involves protection not of respondent's idea, data, or information (which petitioner is free to copy), but of its exclusive right to proceed under a particular regulatory approval issued to it and based in large part on nonpublic data that it compiled. As discussed above (see n.8, *supra*), the cases somewhat more analogous to respondent's situation are those allowing States to protect private interests in nonpublic information and to prevent implied misrepresentation as to source. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. at 482-493; *Bonito Boats*, 489 U.S. at 157-158.

3. As is evident, our view that the decision below does not warrant review by this Court rests on our interpretation of the decision as a narrow holding applicable in an unusual context. It is possible that further proceedings in this or other cases will prove that interpretation incorrect. In that event, it may be necessary for this Court to grant review at some later time in order to prevent interference with preeminent federal interests both in aircraft safety (or another area of federal regulation) and in the protection and limitation of intellectual property rights. We think it more likely, however, that the decision below will be read narrowly and with proper deference to overriding federal concerns.[11] Further review of this case at this time would therefore be premature.

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[11] Cf. *Miles, Inc. v. Scripps Clinic & Research Found.*, 810 F.Supp. 1091, 1094-1098 (S.D. Cal. 1993) (recognizing, under California law test set forth in the decision below, an intangible property interest in the "right to commercialize" a biological "cell line," but refusing to recognize a state law action for conversion of that interest).

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submited. [sic]

WILLIAM C. BRYSON
Acting Solicitor General

STUART E. SCHIFFER
Acting Assistant Attorney General

LAWRENCE G. WALLACE
Deputy Solicitor General

EDWARD C. DUMONT
Assistant to the Solicitor General

DOUGLAS N. LETTER
RICHARD A. OLDERMAN
Attorneys

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